

# HEARING ON EXPORT PROMOTION EFFORTS

4. SM 1/2: S. HRG. 103-712

earing on Export Promotion Effects...

## HEARING

BEFORE THE

SUBCOMMITTEE ON EXPORT EXPANSION AND  
AGRICULTURAL DEVELOPMENT

OF THE

COMMITTEE ON SMALL BUSINESS

UNITED STATES SENATE

ONE HUNDRED THIRD CONGRESS

SECOND SESSION

ON

HEARING ON EXPORT PROMOTION EFFORTS

WEDNESDAY, MARCH 30, 1994



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# HEARING ON EXPORT PROMOTION EFFORTS

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WEDNESDAY, MARCH 30, 1994

U.S. SENATE,  
COMMITTEE ON SMALL BUSINESS,  
SUBCOMMITTEE ON EXPORT EXPANSION  
AND AGRICULTURAL DEVELOPMENT,  
*Philadelphia, PA.*

The Subcommittee met, pursuant to notice, at 10 a.m. in the Administration Building, Tioga Marine Terminal, Hon. Harris Wofford, Chairman of the Subcommittee, presiding.

## OPENING STATEMENT OF HON. HARRIS WOFFORD, A U.S. SENATOR FROM THE STATE OF PENNSYLVANIA

The CHAIRMAN. This Senate Small Business Subcommittee on Export Expansion and Agricultural Development hearing will come to order. We're fortunate today we're not snowed out once again. I want to thank those who came and had their schedules disrupted last time. But spring has sprung or is springing. And I hope that we won't ever let snow stop us again.

Welcome and good morning. I'd like to thank very much our colleagues of the Philadelphia Regional Port Authority, Bill McLaughlin, old friends, important leadership here, and Carl Travato and Joe Menta. I'm glad to be back and this is a very vital place for the Commonwealth of Pennsylvania and for the United States.

You are blessed today with only one Senator to give an opening statement. If you were in Washington, it might be half a dozen or more of us. I think one of the most frustrating points at most hearings is when you have witnesses waiting to be heard and you and all the Senators make these opening statements. But I do have one opening statement that I'd like to put forth before you.

American companies today have to compete in a high tech world economy full of great challenges. We're looking outside national boundaries at exports as the critical source for new markets, new profits and new jobs. I'm not sure whether I think the report of the Trade Promotion Coordinating Committee is all together an adequate report, but I like its big caption. This is the 1993 report, National Export Strategy, U.S. Exports Equal U.S. Jobs. And that's a self-evident truth.

Trade barriers are beginning to fall, but we've got to make sure that Pennsylvania businesses and especially small businesses have the tools they need to take advantage of these new opportunities. And I'm concerned that we're not doing as well as we could be



doing. I want to find out whether that's true and, if so, what we can do about it.

Just last week the U.S. Department of Commerce reported that the level of exports plunged in January. In January, combined imports of goods and services exceeded exports by \$6.3 billion, just up from \$4.1 billion in December.

Even as we work to cut government spending and balance the Federal budget, we have to invest our public resources in the building blocks of private economic growth, education, training, research and technology and the kind of assistance that we're going to talk about this morning to exports.

I think the Federal Government has a role that can be a critical role to play in helping businesses expand American exports. It seems to me we have to be working on several fronts. We need to continue to bring down foreign trade barriers to U.S. products and services. I think the administration has shown a strong commitment to do that on both a multi-lateral and a bilateral basis. And I am urging them on.

But government also can help companies by expanding access to investment capital and market information. The Export-Import bank and Small Business Administration help significantly in some cases with financing. The Departments of Commerce and State provide information on potential markets and the ins and outs of exporting.

As chairman of the Export Expansion Subcommittee of the Small Business Committee and as a member of the Foreign Relations Committee, I want to make sure that our Federal efforts designed to help U.S. business' exports are, in fact, doing what they need to do. So, I've called this hearing for two reasons. First, with direction from Congress, the administration has established the Trade Promotion Coordinating Committee to coordinate the 19 Federal agencies that are involved in exports. I want to see how that program seems to be doing.

Second, I want to learn from our experience in Pennsylvania to see what the Federal Government can adapt from Pennsylvanians own export promotion efforts. The World Trade Magazine just listed Pennsylvania as one of the top ten export states. I'm not sure that's quite the rank we should be satisfied with, but in many areas Pennsylvania has proved to be a laboratory of innovation.

I'm going to put in the record an editorial from the Pittsburgh Business Times and an article from the York Daily Record on how Pennsylvania's success with industrial resource centers and the Ben Franklin Technology Centers provide a critical model for the National Competitiveness Act which we passed in the Senate earlier this month.

[Information referred to follows:]

#### ARTICLE FROM THE "YORK DAILY RECORD"

WASHINGTON—When Dayton Parts wanted to conduct a quality control initiative, the Harrisburg manufacturing firm sought the help of MANTEC, the state-supported Industrial Resource Center of Southcentral Pennsylvania.

Instead of spending its own money and time looking for experts, York-based MANTEC hooked Dayton Parts up with consultants who advised the company on how to improve the quality of its products, as well as its service, methods and procedures.



MANTEC even helped pay some of the costs, according to George Meyer, director of manufacturing at Dayton Parts. The resource center paid 20 percent of the consultant fees, Meyer said.

Dayton Parts received the final assessment Tuesday, "From that (report) we've gained a lot of information about ourselves and how we can be competitive," Meyer aid.

The state Commerce Department program which funds resource centers such as MANTEC and the Ben Franklin Technology Partnerships will likely get a boost from a Federal proposal which passed the U.S. Senate Wednesday.

The Senate voted 59-40 to approve the National Competitiveness Act and authorize spending \$1.9 billion to help small- and medium-sized companies develop advanced technology.

The measure, which is designed mostly to boost high-tech manufactures, offers venture capital loan guarantees, grants and loans to promote development of advanced technology.

It would also help fund a nationwide network of technology outreach centers similar to MANTEC and the Ben Franklin partnership.

The extra funding would help MANTEC and the other centers reach out to more Pennsylvania companies, MANTEC's Cathy Himes said.

"We're already ready to go," Himes said, "We have the infrastructure."

The Casey administration estimates the resource centers have worked with about 1,500 companies, or 10 percent of the small- and medium-sized manufacturers. MANTEC has worked with more than 300 businesses in 10 countries, Himes said.

"This legislation builds upon Pennsylvania efforts we know work and create jobs," Sen. Harris Wofford, D-Pa., said.

"The National Competitiveness Act is about creating jobs," Wofford said, "It's an important step in changing our nation's investment priorities to keep up with a changing world."

Wofford cited another MANTEC success, York-based Olin Flinchbaugh Division, a tank munitions manufacturer which employs 500 people.

"By putting Flinchbaugh in touch with other industry contacts, MANTEC helped it gain new business," Wofford said.

While Wofford and industry officials such as Dayton Parts' Meyer praised such programs, Rep. Bill Goodling, R-York, was concerned the National Competitiveness Act would create more bureaucracy.

Goodling supports private-public partnerships to help industry grow, but doesn't want the efforts to overlap.

"We have some many different program," said Goodling, the ranking Republican on the House Education and Labor Committee. "We have to stop this piecemeal stuff."

Goodling supports a separate proposal that would create "one-stop shopping for job training."

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## EDITORIAL FROM THE "PITTSBURGH BUSINESS TIMES"

### THE FEDS TAKE NOTICE

The National Competitiveness Act, legislation aimed at creating high-wage, high-skill jobs by funding a support network for small- and mid-size businesses, is right on target.

The bill last week passed the U.S. Senate, where it had the support of Pennsylvania Sen. Harris Wofford, a co-sponsor of the legislation. We strongly support its passage in the House.

The plan contains several ingredients that are key to fueling the growth of healthy employers. Chief among them is the recognition that business is an economic engine that needs relatively modest investment to pay big dividends.

Parts of the act likely will sound familiar to Pennsylvanians; it borrows much from certain economic development initiatives that have proven successful statewide. Pennsylvania's Ben Franklin Partnership and its industrial resource center network, established by Gov. Robert Casey, have been effective in boosting smaller companies in the Pittsburgh area.

Such programs are examples of how government can funnel revenue back to the business community in ways that maximize the value of tax collections.

One need only turn to this week's Small Business News section on page 2 of this newspaper to see the payoff: No less than three local companies recently have tapped state-funded coffers for financial and technical assistance.

The Federal plan contains a similar two-pronged approach. It would offer grants to companies that are developing commercially viable technologies. And it would

provide for education and other forms of assistance through scattered resource centers.

The concept behind such economic development initiatives is simple and practical. Companies just shy of meeting private banking guidelines can languish for lack of capital, even though they may have a high probability of success. Government funding can make the difference.

Likewise, low-cost technical assistance provided through government funding can keep a company competitive with offshore competitors.

And Sen. Wofford noted: "With this bill, the government doesn't pick winners and losers. All grants require a matching investment of 50 percent from the private sector. So, investment decisions under this program are made as they always are—according to what the competitive market dictates."

The economic development programs in Pennsylvania that provided the inspiration for the Federal legislation are a bright spot in government. Congress would be wise to emulate them.

The programs are geared toward job creation, and we can think of few pursuits more deserving of funding. In the vast reaches of the Federal budget, we encourage senators and representatives to cut waste and fund this program.

So, through this hearing, I want to make sure that small businesses are receiving the Federal services they need to compete internationally. Small businesses are often the least experienced in exporting abroad. Almost by definition most of them are the least experienced, but they also can afford the least mistakes.

I want to take the ideas we hear today back to Washington and soon hold a follow-up hearing with administration officials and then we can work together to solve any of the problems that have developed to make our export efforts more effective for small business.

Today, I'm mainly here to listen and ask questions. I hope we will have time for some of our colleagues who have come who are not the formal witnesses today to contribute some of their ideas. I look forward to our first panel.

If I can give you a brief introduction of each of our witnesses we'll then go first in order. Aleda Loughman is president of SOMAT Corporation of Coatesville, which produces waste reduction technologies. And that's certainly an area where I want the United States to be in the front line and not find our foreign competitors doing all the exporting and importing here.

Kodjo Sevon is president of Manguier Marketing of Philadelphia which exports clothes and food items to Africa. It's a special interest of mine since I was head of the Peace Corps in Africa from 1962 to 1964 and visited most African countries then.

Finally, Bob Cotten is president of Bob Cotten Gourmet Specialties of Stowe. He came in from a trade exhibit in Atlantic City for this. And I need him on that front line, too. So, I appreciate your time this morning. He produces baked goods and deserts for exports, but he didn't bring any for us today.

Mr. COTTEN. Didn't have a big enough truck.

The CHAIRMAN. Aleda, if you will start. Your full statements will be in the record, and I appreciate your trying to stay within the time limits.

#### **STATEMENT OF ALEDA P. LOUGHMAN, PRESIDENT, SOMAT CORPORATION, COATESVILLE, PA**

Ms. LOUGHMAN. Thank you, Senator Wofford. SOMAT Corporation was founded in 1950 by a German inventor who was 40 years ahead of his time. He cared about the environment. He was ap-

palled at the waste that he saw in this country. What evolved from his early attempts to make people care about waste and the environment were the systems that we manufacture today.

For the food service industry, specifically for institutional type feeding operations, such as hospitals, schools, colleges and even casinos, we manufacture waste reduction systems. These systems process food service wastes, paper, plastic, foil, food, et cetera, in a pulping tank. We pump the resultant slurry by pipeline to the Hydro-Extractor. The Hydro-Extractor separates the solids and then recirculates the water back for reuse and discharges the solids in the form of a compact moist pulp.

We further developed the Hydro-Extractor portion of our system for dewatering wastewater treatment plant sludges as well as many industrial sludges, particularly those found in food processing operations.

One of the things I did as president was to draw up the long range business plan. Before you think about going global you really must know yourself. You must know who you are, what your market is, who your customers are, where your products best fit and know what you would like to achieve over the next years.

Through the process of putting together a growth plan you come up with many unknown factors, particularly with regard to the export market. I think you do the same thing to answer these unknowns as you would do for some that might be more easy to relate to.

If you're building a product that needs to be welded, you don't have to be a welder, you hire a good welder. So, when you have unknowns about how and where you could apply your products in the global market, you hire an expert.

We contracted the Wharton Export Network and had them conduct two different market research programs for us, one for the European market and one for the Pacific rim market. The Wharton reports gave us an excellent comprehensive guideline as to what we should do, which countries would offer the best opportunities and why, how to find distribution and even what areas to shy away from.

As a relatively small company with a lot of home grown personnel, we didn't have anyone to head up an international movement. We had had some experience in a very specific market, the food service industry.

In 1986 we learned of new international maritime regulations that were being put into effect, which would force all sea going vessels to install waste handling systems on board as they could no longer be allowed to dump their trash overboard. We were fortunate in making inroads into this market and currently have systems on over 50 large cruise ships with many more specified and, in fact, several on order.

Through our cruise ship business we received some exposure to the European market place, just enough for us to know we didn't know how to approach the foreign markets without some guidance. So, back to the same idea. If you don't know how to weld, you hire a welder. If you don't know the international market, you hire someone who does.



We hired an individual who had over 25 years of international marketing experience, Ron Alonzo. And we have now set up distributors in the Pacific rim and have worked closely with them to give them sales training and service training.

Recently we completed the development of a new product. As I explained earlier, most of our food service reduction systems were geared to large institutional type food service operations. The new product we have developed is geared to the commercial operations, which are by far the largest segment of this industry.

There is a particularly high interest in this product in Japan. There are more restaurants in Japan than there are in the United States. And they have no space, they have no landfills, so waste reduction systems and equipment is particularly critical there. And we will be exhibiting our new product in food service trade shows in Singapore in April and then in Japan next October.

We have had relatively little experience in working with government agencies toward developing our export market and not all of it has been positive. Over the past years, I periodically received information from the Department of Commerce offering to distribute our literature at international trade shows for a fee.

On several occasions we signed up for this kind of distribution and there were few, if any, responses. A few years ago, I was attending a cruise ship trade show in Hamburg, Germany, and happened to notice a Department of Commerce booth with literature from various companies in the United States. I stopped by the booth just to see how it was being handled.

The only person in the booth was a German lady. I asked her if there were any U.S. companies represented there who dealt with waste handling equipment. She as much as told me she didn't know, but I was welcome to look for myself.

More recently we paid a fee to enter a gold key program in an attempt to locate distributors in Singapore and Mexico. We provided the profile forms given to us by the Department of Commerce along with our literature. Since we have products for two totally different market places and have two different sets of literature, we submitted both.

For whatever reason, our food service literature was given to people who operate wastewater treatment plants. Our sludge dewatering literature was given to people who operate food service facilities. This happened in Mexico and in Singapore.

Despite this we did get two or three potential distributors, but we learned that the people distributing our literature were local people who did not understand American business and obviously did not pay much attention to what we had submitted.

On a more local level, we have had some assistance from the Chester County International Initiative and have obtained contacts from people in Taiwan. And we're still working with them in other areas.

Through the Philadelphia Industrial Development Corporation we have had inquiries from people in Spain looking for environmental products and we have some ongoing communication there. Also through PIDC, we attended a business round table which led to contacts for distribution for our sludge dewatering products in

Latin America. We actually have realized some sales from one of these distributors.

Overall based on our very limited experience, we get the feeling that the Federal Government people we have worked with are reactive, not proactive. The local people we have worked with have been more proactive and more helpful.

We believe that the advances with NAFTA and GATT will help remove some of the trade barriers, but we, along with other small businesses, could use some help in knowing how small business can take advantage of these new opportunities.

We have significant confidence in our own abilities and are predicting that we will experience steady and substantial growth over the coming years.

We are forecasting that we will increase our sales from our current level of \$7 million a year to over \$15 million by the end of 1996. The most significant factor in this projected growth is in international sales, which we expect will more than triple.

Thank you very much.

[The prepared statement of Ms. Loughman follows:]

PREPARED STATEMENT OF ALEDA P. LOUGHMAN, SOMAT CORPORATION

First of all, let me make certain that I don't start out with any misunderstandings. I am not an export expert. What I can do is give you a brief background on Somat Corporation and tell you what steps we took to get into the global marketplace.

Somat Corporation was founded in 1950 by a German inventor who was 40 years ahead of his time. He cared about the environment, and he was appalled at the waste that he saw in this country. In his mind, all waste could be recycled and reused. What evolved from his early, rather futile, attempts to make people care about waste and the environment were the systems that we manufacture today. For the foodservice industry, and most specifically for institutional-type feeding operations such as hospitals, schools, colleges and even casinos, we manufacture a waste pulping system. Ideally, the pulpers are placed under the dish table in the dishwasher room of the kitchen where it receives all the foodservice waste (paper, plastic, foil, food, etc.). This material is ground under water in the pulping tank into a fine slurry, which is then pumped by pipeline to the dewatering unit, which we call the Hydra-Extractor. The Hydra-Extractor separates the solids and recirculates the liquids through a separate pipeline back to the pulper for reuse. The solids are squeezed and discharged into the form of a compact moist pulp.

Some years later, we further developed the dewatering portion of our systems and came up with a unit for dewatering sludge at waste water treatment plants. We also learned that this same type dewatering device could be used for dewatering many industrial sludges, particularly those found in food processing operations such as potato chip manufacturers.

Over the many years that this Company was in business, this pulping and dewatering concept was applied in a multitude of marketplaces. Because we are still a relatively small company, a few years ago we started targeting our markets to very specific market niches where we could do a good job, rather than trying to be all things to all people.

One of the first things that I did when I took the position I hold today was to draw up a 3-year plan. The first thing you have to do before you think about going global is to really know yourself, know who you are, know what your market is, who your customers are, where your products best fit, and know what you would like to achieve over the next 3 to 5 years.

Through the process of putting together a growth plan, you will come up with many unknown factors, particularly with regard to the export market. Your unknowns might be as basic as not knowing whether your products are even needed in foreign marketplaces. Perhaps your products would be needed in the European Market but not in South Africa. Perhaps they'd be needed in one country and not so much in another. There is the question of how you will sell to the foreign marketplaces. Will you hire people to handle all of your sales as direct employees, or will you be seeking some type of sales representation. How will you be distributing your

products? Will you set up a manufacturing operation overseas? Or will you tie up with someone to whom you would give a franchise? The unknowns are many, and they are varied.

I think you do the same thing to answer these unknowns as you would do for some that are more easy to relate to. If you need to install a new computer system, you don't have to be an expert computer programmer, you just have to know what end result you're looking for and you hire an expert to do the work. If you're building your product that requires welding, you surely don't have to be a welder in order to make certain that you get an end product that has the appearance that you need and the strength for a weld to survive when the product is put to use.

So when you have unknowns about how and where you could apply your products in the global market, you hire an expert. There are many directions you can take. There are large companies who will do market research and give you a report for which you will pay \$50,000 to \$100,000, or you can do what we did. We couldn't afford those large companies, but fortunately for us, we learned of the Wharton Export Network, and we contacted Hans Koehler. His group did two different market research programs for us—one for the European Market and one for the Pacific Rim Market. In my opinion, and in the opinion of others who know marketing better than I do, these reports were outstanding and comparable to those that cost 10 times or more as much as this cost.

The Wharton Reports really gave us good guidelines as to what we should do, which countries would be the best targets and why, how to find distribution, what areas to shy away from. It was an excellent comprehensive guideline to get us started.

Once we knew what we wanted to do and had a good idea of how we should approach the global market, at least the Asian and European Markets, we had another problem. As a relatively small company with a lot of homegrown personnel, we didn't have anyone to head up the international movement.

We had had some experience in a very specific market, the cruise ship industry. In 1986 we were approached by a Norwegian company which manufactures incinerators. They told us of new international maritime regulations that were being put into effect within the next couple of years and which would force all seagoing vessels to install waste handling systems on board as they would no longer be allowed to dump trash overboard. This company wanted to offer our waste pulping systems for the foodservice waste on the cruise ships as they were offering a total waste handling package to the cruise ship industry including the incinerators they manufacture and some can and bottle crushers. As a result of this relationship, we were able to make inroads into the cruise ship market. We currently have systems on approximately 50 large cruise ships, with many many more specified.

Through our cruise ship business, we did receive some exposure to the European Marketplace, just enough for us to know we wouldn't know how to approach the foreign markets without some guidance.

We've all heard the horror stories of what can go wrong if you don't know the cultures you are dealing with. Japan is different from France which is different from Germany which is different from Hong Kong, and they're all different from the U.S.A. There are so many things you need to be sensitive to. In the U.S.A. we are very much prone to using someone's first name the minute we meet them or slapping them on the back. In some countries both of these things are taboo and might be taken as an insult, and we all know what happens if you insult a potential customer—they are no longer a potential customer.

So go back to the same idea . . . if you don't know how to weld, you hire a welder; if you don't know the international market, you hire someone who does. And there are some good ones out there. Because of the recession, a lot of companies cut back their staff. In my opinion several of them made the big mistake of cutting back their international personnel. Their salaries aren't low, and their travel expenses are high, so it was an easy way to immediately cut some overhead, but they sure set themselves back in their growth plans when they did this. You can't substitute their experience, and once you've hired them, you have to give them some space and give them your total support. Don't expect them to triple your business overnight; let them set up the distribution; let them guide your marketing plans. And you will find, as we are, they not only will help you develop new markets in foreign countries but will bring a fresh approach and new ideas for your domestic market.

Be careful of the multitude of companies out there who will tell you they will do it all for you—market research, sales, distribution, everything. They're good sales people, at least in so far as to convincing you that they can sell your product all over the world. There might be a very few who can, and I'm certain this depends on your product, but do your homework and check them out, at least as carefully as you would check out a top manager that you are about to hire. Because if you



do it wrong, you may not soon get a chance to go back and try again, so it's important, in my opinion, that you hire an experienced person and you'll be way ahead of anyone who is trying to do it themselves or work through an export company with many clients, who will not give your product the concentrated attention it deserves.

Just over 2 years ago, we hired an individual with over 25 years of international marketing experience. His name is Ron Alonzo. Since he has been with us, we have set up distributors in the Pacific Rim and have worked closely with them to give them both sales training and service training. This training is an ongoing process and does require a commitment on our part to maintain close contact with these distributors.

We have also completed the development of a new product. As I explained earlier, most of our foodservice pulping systems were geared to the large institutional-type foodservice operations. The new product that we have developed is geared to the smaller operations, which are by far the largest segment of the foodservice industry. We introduced this product at a foodservice tradeshow in September, and the response was tremendous. There is a particularly high interest in this product in Japan. It is probably not a well-known fact, but it is a fact that there are more restaurants in Japan than there are in the United States. They don't have space, landfills, etc., so waste reduction equipment is particularly critical for the Japanese market. We will be exhibiting this new product at a foodservice tradeshow in Singapore in April and in October in Japan.

We have had relatively little experience in working with government agents toward developing our export market, and not all of it has been positive. Over the past several years, on more than one occasion, I received information from the Department of Commerce offering to distribute our literature at an international tradeshow for a fee, and on several occasions we signed up for this kind of literature distribution. There were few, if any, responses. A few years ago I was attending a cruise ship tradeshow in Hamburg, Germany and happened to notice a Department of Commerce Booth with literature from various companies in the U.S. I stopped by the booth to see how it was being handled. The only person in the booth was a German lady who did speak English. I asked her if there were any U.S. companies represented there who dealt with waste handling equipment. She as much as told me she didn't know but that I was welcome to look for myself at the literature on display.

More recently, we paid a fee to enter a gold key program in an attempt to locate distributors in Singapore and Mexico. We provided the profile forms given to us by the Department of Commerce, along with literature. Since we have products for two totally different marketplaces and had two different sets of literature, we submitted both. For whatever reason, our foodservice literature was given to people who operate waste water treatment plants; our sludge dewatering literature was given to people who operate foodservice facilities. This happened in Mexico and in Singapore. Despite this, we did get two or three potential distributors. What we learned is that the people distributing the literature were local people, not American citizens, who did not understand American business procedures and, obviously, didn't pay much attention to the information we submitted.

A few years ago there was a young man with the local Department of Commerce who called on us and gave every indication that we could receive considerable help. He has since been transferred, and we haven't heard from his replacement.

On a more local level, we have had some assistance from the Chester County International Initiative, headed by Homa Tavangar. We have obtained some contacts with people in Taiwan and are still working with the Chester County International Initiative in other areas. In fact, our Vice President of Marketing has been asked to serve on the Board of this organization.

Through the Philadelphia Industrial Development Corporation, we also had an inquiry from the Basque people in Spain looking for environmental products and have had some ongoing communication there, but nothing has been finalized. Also through PIDC we went to a business roundtable which led to contacts for distribution for our dewatering products in Latin America and have actually realized some sales from one of these distributors.

Overall, and based on very limited experience, we get the feeling that the Federal Government people are reactive, not proactive. The County and State people we have worked with have been proactive and more helpful.

We also believe that the advances with NAFTA and GATT will help to remove some of the trade barriers, but we, along with other small businesses, could certainly use some help in knowing how small business can take advantage of this situation. We don't have the dollars the big companies have, with teams of people available to develop export markets. Our people have to wear lot of hats and we could use some help in getting some of these doors opened.



We have significant confidence in our own abilities and are predicting that we will experience steady and substantial growth over the next 3 years. We are forecasting that we will increase our sales from our current level of \$7,000,000 a year to over \$15,000,000 by the end of 1996. The most significant factor in this projected growth is in our international sales which we expect will more than triple. This increase will, of course, require an increase in employment with our company. Within the past few months, we have gone from 50 employees to 55 employees. This is not a significant number, but it is a 10 percent increase. Over the next 3 years, we expect that we will at least increase by another 25 percent or approximately 15 more employees.

The CHAIRMAN. I'll hold my questions until all three of you have spoken.

Mr. Sevon.

#### **STATEMENT OF KODJO SEVON, PRESIDENT, MANGUIER MARKETING, INC., PHILADELPHIA, PA**

Mr. SEVON. My company is called Manguier Marketing, Incorporated. It is currently based at 3114 Spring Garden Street in Philadelphia, PA. The company's primary purpose is to engage in international trade, specifically selling U.S. and Pennsylvanian-made products to African markets.

The initial products I supplied were influenced by traders throughout Africa who have sent requests for many other commodities forcing Manguier Marketing to be not only a major used-clothes exporter but an imposing trading enterprise for all commodities.

Other commodities identified for export include food items such as rice, wheat flour, frozen meat products, chemical products, computer and office supplies.

Manguier Marketing has already positioned itself as one of the major used clothes exporting companies in Pennsylvania. During the initial year of operation, Manguier has generated eight full-time jobs. The company has already received a number of purchase orders and shipped goods to customers in the African countries of Benin, Ivory Coast, Ghana, Gabon, Mali, Niger, Kenya, Togo, Cameroon, Congo and Zaire.

Manguier's initial target market was Togo, my country of birth, but word quickly spread in the whole continent of Africa about my export activities. And Manguier has been flooded with requests from all of Africa.

Manguier is a corporation established and operated under the laws of the Commonwealth of Pennsylvania. The company, as I said, is owned 100 percent by me. It was incorporated in 1992 and was in operation immediately. The company was created for the purpose of engaging primarily in international trade, meaning selling and exporting of U.S. goods and Pennsylvanian-made products to Africa and to other parts of the world.

Since its inception, the company has been successful in establishing solid relationships with several African countries and customers including wholesalers, manufacturers and others in the sale and distribution of customer products.

Since 1992, the firm's main focuses have been placed on finding new target markets for U.S. goods, particularly American style clothing and continuing to establish meaningful business relationships with potential African customers.

Consequently, I have invested much of my time and efforts into securing letters of intent from importers all over Africa. Thus, I spend approximately \$8,000 in trade development and promotional activities for marketing-related efforts throughout Africa.

As a direct and continual result of my efforts I have been receiving orders from Africa for used clothes and many other U.S. products and have quickly found willing and able suppliers right near the Southern Pennsylvania location of my business.

However, due to the present lack of space I have been fulfilling these orders very slowly. Currently, my company is exporting a great deal of items to several African countries and has received a number of commitment letters for used clothes and shoes.

My company, in a joint effort with Dean Shoes Manufacturing Company, the largest shoe manufacturer in New Jersey, has sent factory rejected shoes to Togo, Ghana and Gabon for school opening in September.

I am currently talking to Cannon Corporation in North Carolina about the possibility of supplying hotels in Africa with Cannon bed sheets and towels. On-hand experience has allowed me to see that U.S. companies tend to neglect Africa despite a great demand for U.S. made products over there.

I have been filling these voids by shipping tons of U.S. made clothes to Africa. If I had been able to secure additional financing, my company could have doubled its sales for the past ten months. This business offers the opportunity to return every dollar invested at least four times within the calendar year. As a result, a \$25,000 loan or grant could generate a minimum of \$100,000 in sales within a 12-month period.

I can't hide that my company currently has a need for loans or grants and the reasons for these needs are as follows: Recent presidential elections in many African countries have caused social disturbance and have shaken up the political atmosphere throughout the continent. Second reason, the frank, which is the currency for 17 African nations, was devaluated 100 percent effective January 4, 1994. That devaluation has considerably diminished the purchasing power of my entire clientele.

Regardless of the prevailing social political atmosphere in Africa, the continent imports about 95 percent of all goods or merchandise on any given day. I plan to take full advantage of the huge import market by exporting a variety of goods to various countries.

Based on this, coupled with demand and the realistic projected income, I'm confident that the repayment of the loan, if I do get one, will not create any hardship on the loaner. My primary plan was to start my operation in Togo, serving approximately five million people, but the depression has quickly covered the entire Agulhas region. Agulhas is comprised of 16 countries with a population of 200 million people.

My plans are now to continue to expand to supply the entire continent of Africa. And during the operations, business is usually concentrated in the big cities of Africa such as Abuja, Accra, Bamako, Lome, Quagadougou, Kinshasa, which have the largest metropolitan areas in South Africa. These areas not only contain the largest urban African population, but they also have the most reliable

highway system which makes them the commercial base of the continent.

As far as location is concerned, Manguier has less interest of the area with respect to the exports to Africa. No company in this location is known to be engaged in the exportation of clothes and foods to Africa. And in the United States as a whole, trade activities with subsaharan Africa are in cooperation with Europe and Asia.

Thank you.

The CHAIRMAN. Thank you. Aleda Loughman says that when you don't know something you hire an expert and you try to find the person who can help you do it. I presume you speak French as a native language. I noticed you were a school teacher before you came to the United Nations.

You came from Togo, a French speaking country. It was the first country I negotiated a Peace Corps program in. I, in a Jeep, used to claim that I rode every road in Togo in 1961 from Mongo to the Congo et cetera, et cetera, et cetera.

But the point I'm pointing out is that half of subsaharan Africa speaks French as its language of official expression in business. I negotiated the Peace Corps program in very bad French, but I would think that one of the problems of exporting to that half of Africa is the knowledge of French, which is an expertise that you have.

Mr. Cotten.

#### **STATEMENT OF BOB COTTEN, PRESIDENT, BOB COTTEN GOURMET SPECIALITIES, STONE, PA**

Mr. COTTEN. Thank you, Senator Wofford. And thank you for inviting me to be here. I attend with a warning that I'm a very small business and there are much bigger fish in the pond than we are. But we've been exporting now for about four years into France, primarily because the—

The CHAIRMAN. Gourmet specialties to France?

Mr. COTTEN. Let me explain. This is not really "Coals to Newcastle." It's unique because the distributor that we have in France focuses entirely upon American specialty food products. He has, for example, California wine, Texas beer, bagels, tacos and pecan pie.

The CHAIRMAN. Apple pie?

Mr. COTTEN. Well, we ship a cheese cake and a carrot cake, a pecan pie and a key lime pie. It started off with just pecan pie and it's expanded over the four years, so now he has four items.

So, I assume that next year we'll get something new in there. I plan to go see it in October and further boost my existing base of business in France.

He covers the whole country. And as I say, he's uniquely situated to do the business that he does. Many people don't realize it but the fastest growing segment in the restaurant business in France is Tex-Mex and they really go nuts over it. I don't know if it's expatriate Americans or the French have just lost it on food. But be that as it may, it's good for us. And we have a good relationship with him.

The CHAIRMAN. Who is the him again?



Mr. COTTEN. It's Selected Distributors and Vintners in Cognac. And they have their principal freezer and distributor space in Paris.

The CHAIRMAN. How did you find them?

Mr. COTTEN. Well, this is a roundabout story, because Pete Witmer from the Department of Agriculture sort of found me and I wasn't in a go mode to export. At that time, we were struggling to survive just as a business and try to make it from day to day.

But Peter took the time to come see us and we had lunch together and had a good day together. He looked at our plant and said, you know, you really ought to go to this show in Boston. I think it was the National Association of State Departments of Agriculture Show in Boston at that time. I'm not sure that organization still exists.

The CHAIRMAN. He was with the U.S. Department of Agriculture?

Mr. COTTEN. No. He was with the Pennsylvania State Department of Agriculture. I'm sorry, good for you. I need to have that straight in the record. Anyway, Peter was instrumental in getting us to Boston. And what this involved was they would pay part of the cost of the exhibition. It's quite expensive to have a booth there, eight or nine thousand dollars.

Our little company couldn't afford that sort of outlay. We could afford to go there. We could afford to get the product there, but we couldn't afford to pay for the price of the booth. So, what the Department of Agriculture did was pay for the booth.

That was pretty cut and dried and very simple and easy to understand. There wasn't a lot of record keeping so we were happy to go there. Oddly enough while we were there this distributor, the Frenchman came by the booth. And unbeknownst to me he tasted the pie. He liked it very much and he went back to France. That was the end of that for a while.

Then I get a phone call one day about a year later. And it's this Frenchman. He wants to know if I could send him some pecan pie. And, of course, I'm elated, because I had figured that this show was a no deal because we didn't get any response out of it. But lo and behold we did get a response and that was him.

So, I think it was the following year that I took advantage of an existing State Department of Agriculture program to attend the Salon International de l'Alimentation, which is called SIAL in Paris. It's one of the biggest food shows in the world. So, we were again delighted to be able to participate in that. Again, the State Department of Agriculture bought the booth.

We paid to go there. We paid for our hotel. We paid to make all the arrangements for ourselves. I think we did contribute a token amount to the booth space, but anyway, it was an enabling thing for us to go there and we were able to build our business in France as a result.

I want to put in the record, too, that Pennsylvania is in a unique position as far as exporting food. Because while I was in the booth, the companies there, one of them was a small brewery in Pennsylvania. And you talk about "Coals to Newcastle," trying to sell beer in Europe is even tougher than trying to sell pecan pie. But this guy was able to sell a container load of beer to I think

it was Finland or some such country. I can't really remember where it was, but I said that he could sell this beer to Finland. Anyway, he has since developed an export business from just going to the food show in Paris. And we have, as I say, been able to build our business. This is good for the State of Pennsylvania because as I told you in an earlier letter that I sent you, my little company uses Pennsylvania flour, Pennsylvania corn syrup, and chocolate that's made in Pennsylvania. We use fresh Pennsylvania eggs, Pennsylvania milk and cream and Pennsylvania butter and you go on and on down the list. Our domes are made in Pennsylvania. Our boxes are made in Pennsylvania. I think the ink that imprints the boxes is made in Pennsylvania.

So, one little company like ours can have a far reaching effect in many other companies. The reason I call attention to this fact is that I have a sense that the tendency is to move at the Federal level toward a great big umbrella thing that is going to focus its attention on companies that produce high tech equipment. Then they can say, well, we have this company here, company X, they employ 5,000 people and they're exporting everything to Japan or to Germany.

Well, that's fine and I'm not against that at all. It's just that those 5,000 people, what happens if the contract suddenly is canceled and they are left high and dry. Whereas little companies like ours feed into other companies all over the State of Pennsylvania. By doing so, I think we cushion the impact of adverse conditions trade-wise. I think we do a lot to boost the food and agricultural producers' product within the State of Pennsylvania. Plus we're bringing money in from another country. We're not just circulating it around inside the State.

So, I think it would behoove Washington to look closely at that aspect of export trade, which is to say the small multi-faceted little interconnecting businesses out there. There are many of them indirectly exporting. In fact, the guy who makes my corn syrup and the guy who makes my butter, they're not exporting but I'm taking their product and I'm exporting. So, I think there is a role to play, little companies such as ours.

And I'm not putting myself as an example, but there are quite a few that are out there like the beer guy, for example.

The CHAIRMAN. Plus if you add up all the small companies you're talking about, they produce most of the new jobs in our society.

Mr. COTTEN. Yes, and as they grow so do the jobs. And that's where the jobs really are. I think it's fine to say that you've got 5,000 jobs in company X that are producing wiring harnesses for cars, but you may have twice that many jobs that are in indirect ways connected with exports. I mean, maybe it's fair to say, I don't know, that somebody in the place that makes my corn syrup, you could say 1/20th of his income or 1/5th, maybe not that much, but maybe 1/100th of his income perhaps came from the fact that I was using his product to export something else, a finished piece of goods into France.

[The prepared statement of Mr. Cotten follows:]

## PREPARED STATEMENT OF BOB COTTEN, GOURMET SPECIALTIES

The following is a personal response to the Report to the United States Congress/September 30, 1993: "Toward a National Export Strategy" as requested of me by the office of Senator Harris Wofford:

My partner and I own a small food manufacturing business in Pottstown, PA. We make pies for restaurants and institutions and we sell to wholesale distributors in nine states from Florida northward to Ohio. For the past 3 years we have exported our product to a distributor in France. This amounts to about 10 to 15 percent of our total sales in a year. We continue to seek markets in other countries and last April exhibited our pies at the International Food Exposition in London.

This export business was the result of efforts by the Export Trade Division of the Pennsylvania Department of Agriculture. Their way of helping businesses like ours is simple: if we can pay to get to a foreign exhibition, they will pick up the cost of the booth. A booth at one of these shows costs thousands of dollars and prohibits us from participating without such help.

I might add that this makes real good sense because my company uses a number of products that are produced by Pennsylvania agriculture. All our pies are made with Pennsylvania butter, Pennsylvania flour, Pennsylvania corn syrup, Pennsylvania milk, Pennsylvania cream and cream cheese and we use exclusively chocolate made in Pennsylvania and margarine made in Pennsylvania and boxes made in Pennsylvania and plastic domes made in Pennsylvania and we buy our raw materials and supplies from numerous other Pennsylvania companies. All of these sources of supply represent people who are working to make products.

We then take these ingredients and supplies and make them into finished goods. Every pie that we sell in Florida or Georgia or New York or Maryland brings the dollars that are in those states into Pennsylvania fresh, new dollars; not dollars that were simply swapped from one point to another within the state's borders. I am no economist but it seems to me that this is where the rubber meets the road as far as a state's economy or a nation's economy is concerned.

In a small way it is not only good for the little Pennsylvania companies we buy from to swap our pies for French francs—it is also good for the United States. Maybe microscopically good. But good.

So it seems to me that a lot of people are benefiting from efforts like those of the Department of Agriculture and, at the national level, the Market Promotion Program.

I read the "Report to the Congress" and I don't know what it says. There may be some excellent ideas and plans in that document but they have been well concealed by a thick insulation of impenetrable verbiage. The writer must certainly have been paid by the word. Furthermore, I have the suspicion that if he could swap a dime word for a seventy-five cent word they raised his pay and tacked on another increase if he managed to use four or five words where one would have been sufficient.

Those ideas that I did decode look fine as long as they don't cost the taxpayers any money. Ideas like "Promote the United States as a country that produces quality products."

The problem with exporting from the U.S. is not that we Americans lack government but that we face punitive tariffs and duties on the goods we export!

I would have no problem at all competing in England and Ireland and Norway and Italy if I could do so under rules that were fair. Our pies are highly desired by European consumers because they are uniquely American and are not otherwise available in their markets. It is maddening to see a display of red, white and blue bunting under a sign that says "Real American Pie" in a Marks & Spencer store in London featuring imitation pecan pie made in the UK.

Yet, there is plenty of Bass Ale sold here at prices people can afford. You can get it on tap all over Philadelphia. And Washington.

From my limited experience and perspective it seems that if companies want to export, they will find a way. If they have a product that people really want in another country, then they have a chance to succeed. It would seem at odds with common sense, for example, to try exporting cheese into France. We did want to export 3 years ago but we didn't know how to. Besides, we were plenty busy then trying to survive in our own domestic market. Fortunately, the Department of Agriculture found us and suggested that they could help if we wanted to pursue it. We did. And they did.

Individual states face a similar situation. The state might have some wonderfully exportable products but lack the means to inform the producers and manufacturers or to help them promote overseas. We have been lucky in Pennsylvania but I don't know if this is the case in Oklahoma or Indiana. State legislatures are no easier



to persuade than Congress but if Congress authorized real money to be made available to those legislatures my bet is they would start being aggressive exporters as fast as you could decipher half a page of the "Report to Congress".

The reason my partner and I want to export is because we think we have a product that is very competitive in certain foreign markets and that have a chance to make some profit by taking the risks to do it. Apart from the sort of enabling help we have received from the state, it seems unlikely that we would have sought government participation. Unless government would be willing to provide companies like ours with tax advantages for exporting. That does not seem likely.

We are pleased to be exporters of our pies to France. France produces lots of eggs and cream and flour but they don't grow pecans and they don't have corn syrup and they don't make any pecan pie. It's like "coals to Newcastle" but with a slight twist.

It seems to me it's that slight twist that undergirds success in exporting.

Now, if we could just get these folks to lighten up on tariffs and duties . . .

With best regards I am

BOB COTTEN,  
*President.*

The CHAIRMAN. I thank all three of you very much. It seems to me you're all three examples of how you can succeed. You also have some light to throw on how much help you needed and what we might do differently.

One point I get from several of your remarks is that you get more responsiveness, more initiative from State and local programs. Is that because there's a certain—well, one, because it's smaller and closer to you and, second, a kind of competitiveness or determination to make Pennsylvania succeed or Chester County?

Mr. COTTEN. Well, may I say something?

The CHAIRMAN. Yes, please.

Mr. COTTEN. I think in the example that I just gave, the people who contacted me were people who were familiar with agriculture before they got into the Department of Agriculture. I think they had a real feeling for the agricultural producer. And I think it wasn't a matter of desperation. It was just a matter of knowing what was out there and how best to get it from point A to point B and that happened to be getting in touch with companies like ours.

The CHAIRMAN. Well, the initiative was taken in your example by—

Mr. COTTEN. It was taken definitely by the Department of Agriculture.

The CHAIRMAN. Peter Witmer.

Mr. COTTEN. Peter Witmer.

The CHAIRMAN. I'm not giving out medals, but I mean that's—

Mr. COTTEN. Send one to Peter and you'll have my endorsement on that.

The CHAIRMAN. He just came up to you and said why don't you go to this?

Mr. COTTEN. It was first Ron Gaskel who is now in the MPP Program, who suggested that we go to this thing in Boston and then Peter came down and had lunch with us. One thing led to another and it was because of his prodding that I said, well, why don't we do this.

I had never done it before. It was sort of intimidating. I don't speak French, but it just sort of worked out.

The CHAIRMAN. Are there enough Peter Witmers talking to enough small businesses in Pennsylvania?



Mr. COTTEN. I don't think so. If Washington wants to really do something to get the export trade going, they're going to have to put a human face on it just like that. And they're going to have to go down and press the flesh.

The CHAIRMAN. There is a question, too, does Washington have to do it? In this case Peter Witmer came from the State Department of Agriculture.

Mr. COTTEN. Yes.

The CHAIRMAN. And, Aleda, you had a—

Ms. LOUGHMAN. We exhibit at trade shows also. We have been throughout the United States for I guess all the years we've been in business and more recently some of the international trade shows, but I can tell you we paid for it all.

The CHAIRMAN. Could you elaborate on your point that the State and county agencies dealing with this were more proactive you said and less reactive and took more initiatives. Could you give more examples?

Ms. LOUGHMAN. Most of the direct contact has been with this marketing director that I hired, but he just found that they were doing a lot of things and inviting us to things, picking up the phone and reminding us to come to things. So, maybe they pushed a little bit more.

We feel like on a Federal level that we get tons of things by mail and if you respond to it, you know, it's like the story I told where back before we were getting into this global market place we saw an opportunity to have our products displayed in a trade show in another country and were thinking, well, we can't afford to go over there and have a booth, but we can afford to spend \$300 to have somebody distribute our literature. And then we find out that it's not being done very well.

It doesn't give us much incentive to look for more from that department, you know, since we've had some negative experiences. I can tell you, in fact, right after we had gotten some of the reports from the Wharton Export Network that I mentioned, I sent two letters looking for potential distributors in Germany.

I sent one to the U.S. Embassy in Germany and I sent one to the local Department of Commerce office. And I got two letters back. The local Department of Commerce said contact the Embassy of Germany and the Embassy of Germany said contact your local Department of Commerce office. It doesn't give you the incentive to try to go that route.

So, you say, well, then I'll find another way and we did.

The CHAIRMAN. Which was?

Ms. LOUGHMAN. Well, what we did was hire someone who had this experience and we have already started to do a lot of work in the Pacific rim. We are anxious to get started in Europe, but there again, we run into, it's not called a trade barrier but when you have to spend the money that it takes for products like ours to be certified for ISO-9000 for the CE certificates in Europe, we might be talking \$50,000 or more just to go through those processes.

That's a lot of money for a small business.

The CHAIRMAN. Have you gone through those?

Ms. LOUGHMAN. We have started it.

The CHAIRMAN. Is there any assistance from the Embassy or from any government outfit that helps you with that?

Ms. LOUGHMAN. No.

The CHAIRMAN. I can see why a large company has the capacity to deal with a problem like that. If we really want to encourage small business to get in the game there, it may be there is an area where some special assistance is needed.

Embassy commercial attaches and such are supposedly to give help with things like that.

Ms. LOUGHMAN. I think there is not a week that goes by that maybe all of us don't get in our mail something promoting a book or a seminar or something to help you to go to ISO-9000.

Well, the people who are promoting all of that, they're making money on their promotional activities. And it just costs more, so we haven't done a lot of that either. But we do have some very talented people and we're trying to struggle through it ourselves.

But part of what slows us up is the cost.

Mr. COTTEN. I don't know whether the Commerce Department has but the State Department of Agriculture does have a program whereby if you can't go to the show or the exhibition yourself, they will take the product and they will to the best of their ability exhibit it for you if you give them the instructions of what to do and give them literature. They will do their best to get it to the right people.

The CHAIRMAN. It's our State Department of Commerce that does that?

Mr. COTTEN. I don't know whether the State Department of Commerce does that or not, but the State Department of Agriculture does.

The CHAIRMAN. Do any of you have any experience with trade barriers that we should know about?

Mr. SEVON. I just had one yesterday that I think is a trade barrier. I had a customer who was supposed to come yesterday from Gabon, Central Africa. And when she arrived the customs officials gave her a form to fill out. She speaks no English. One of the questions, question number ten was, do you bring currency with you? And she didn't understand the question. She didn't know what currency means. She knows money, but doesn't know currency.

So, she checked no and then the customs officer wanted to check her bag and found the money she was coming to use to buy the stuff from me. She came with \$26,000 in travelers checks. And then the customs officer said, well, here you said no and here is money. So, this is fraud. And they took the money away. They took all of the money.

So, this lady is here, she just arrived yesterday. So, that was very hard for me to believe. And she called me from JFK airport and told me the story. So, I said, don't worry, stay there. I'm coming. I figured if I take an invoice and proof of offer, they will believe that she's coming here to buy something, buy U.S. goods.

So, I took her invoice, it was an invoice already made out. I took the invoice and I ran to JFK. I arrived there and spoke to the customs officer and told them that, listen, this lady is a customer of mine. I'm a trader. And she's coming here to buy clothing items.

This is the invoice. The money is not illegal. She brought the travelers check from the bank in Gabon.

The officer said, no, we went to return the money to the U.S. Embassy in Gabon and she has to go there and get it back. Mr. Cotten just said that Washington has to put a human face on these stipulation.

The CHAIRMAN. Have you found a human face to this problem yet or is that where it stands now?

Mr. SEVON. That's where it stands now Hopefully my human face will be you.

The CHAIRMAN. I suspected that. When I first went to Bryn-Mawr College I discovered we had to raise a lot of money. And when I first went out to meet Bryn-Mawr graduates, I talked about why we needed to raise a lot of money. One of them came up to me and said at Bryn-Mawr we never use the word money. And this was 20 years ago. They use the word money now, but I understand the euphemism for money then was resources. Now it's currency. And we'll talk to you right after this.

You made a very interesting additional point. I was asking about trade barriers on the other side and I think it's even more pertinent for us to know what the barriers are on this side, what barriers we put up and may not know about it.

One of the barriers we put up is we don't teach foreign languages enough in this country to enable businesses to hire Americans who can go to all the countries around the world. There are a lot of ex-Peace Corps volunteers who have learned the languages who are available for that.

But other countries as you well know, you probably—I'm guessing you know at least three languages. I know you speak three languages.

Mr. SEVON. I speak six.

The CHAIRMAN. Six languages. This strategy report, there are two questions pending. I'm still asking whether you had any experience with trade barriers over there that human faces in Washington should know about?

Mr. COTTEN. The biggest, being the fact that all those agricultural products that I use in my gourmet pies bear I think unfair duties and levies on the other side. We get hit for the butter fat content of every product by weight. We get hit with the sucrose content of the product by weight. We get hit on milk protein by weight. We get hit on starch. And I mean you're talking stuff that just about—there isn't anything else in what I make than the stuff I just told you.

So that, it really is not fair. When I go to London and see in Marks and Spencer a big huge display with an American motif, stars and stripes and they have a big banner that says American pie and the freezer is full of pecan pie that's about this thin and looks like a little torte, you know it didn't come from Georgia and certainly not from Pennsylvania.

So, on the back in fine print, it's produced by Marks and Spencer somewhere in London. But you can always get Bass Ale over here pretty cheap. I like Bass Ale and I buy it every now and then, but I wish they'd be a little more lenient on my product because it makes it very difficult for me to compete in those markets when



they have to pay eight to 12 dollars more for a case than a consumer should have to pay over here or does pay over here.

The CHAIRMAN. Do any of you have any comments on this toward a national export strategy report of the Trade Promotion Coordinating Committee?

Mr. COTTEN. I wrote those comments to you in a letter.

The CHAIRMAN. Do you want to add anything? I appreciated that letter.

Mr. COTTEN. No.

The CHAIRMAN. All right. Russell Redding is a Gettysburg farmer who is my operations chief of Labor and Industry in Harrisburg and is running our operations in Washington, but he's piloting our work on the Small Business Subcommittee on Export Expansion and Agricultural Development.

We're going to work with you, Bob, on reforming and improving our export promotion programs. We have legislation that's pressing that. I look forward to working with all of you.

It seems to me you're all success stories of the kind we need to hear. I think one of the functions that human faces in Washington can perform is to find the success stories and highlight them and learn from them.

Also we need to hear about what doesn't work, the horror stories. And I'm glad that all three of you represent success stories. I wish you luck and look forward to working with you. Thank you very much.

By the way, there are two board members of the Port Authority who are here, Tom Blackwell, who is standing in the back, and Lou Louderback. Tom Blackwell is a distinguished labor leader and Lou's a businessman.

The next panel consists of Michael Montgomery, Kathleen Sifer, RoseAnn Rosenthal and Mame Bradley. We're going to put Mame first since she has a plane to catch.

Mame Bradley is executive active director of the World Trade Center in Pittsburgh. Michael Montgomery is Deputy Secretary for Business Development for the Pennsylvania Department of Commerce. Kathleen Sifer is first vice-president of the International Financial Services Group of Mellon Bank where I had a good time yesterday. And RoseAnn Rosenthal is senior vice-president of the Philadelphia Industrial Development Corporation.

And we're going to ask Mame Bradley to start.

#### **STATEMENT OF MAME BRADLEY, EXECUTIVE DIRECTOR, WORLD TRADE CENTER PITTSBURGH, PITTSBURGH, PA**

Ms. BRADLEY. Thank you. I want to thank you for inviting me to participate in this hearing on the TPCC's report for a national export strategy.

I'm the executive director of the World Trade Center in Pittsburgh which is a member of the World Trade Centers Association of New York and one of 256 world trade centers in 65 countries around the world.

The World Trade Centers Association was founded in 1968 to encourage the expansion of world trade. It's dedicated to three basic goals, to encourage mutual assistance and cooperation among members, to promote international business relationships and to foster

increased participation in world trade by developing nations. Not for profit, and a political world trade centers are membership organizations that provide services and in many cases facilities to their own members and to members of all other world trade center affiliates on a reciprocal basis.

Pittsburgh became a member of the World Trade Association in October of 1990. And we incorporated in 1991. The only operating world trade center in Pennsylvania, the license for the world trade center in Pittsburgh is owned by Allegheny County which has been its principal source of funds to date. Other funding sources include the Ben Franklin Technology Center, the Pennsylvania Commerce Department and Fee Income. We serve companies from all over the State.

The World Trade Center in Pittsburgh provides essentially one service, international business management. By partnering with other world trade centers or with U.S. Business Offices of foreign countries, we sponsor industries, specific Pittsburgh based match-making sessions, between prescreened and prequalified companies from overseas markets.

We've targeted four industrial sectors in Western Pennsylvania that we believe represent significant comparative advantage for the region. Environmental engineering and remediation, software development, health care and biomedicine and metals production and manufacturing. Furthermore, we've decided that the most important non-U.S. markets for these industries are the Far East, Latin America and Western Europe. And it's from these areas that we posted our trade delegations to the region.

The development of a National Export Strategy is a very welcome effort. Fragmentation of services and competing interest of similar agencies aren't unique to the Federal Government. Southwestern Pennsylvania has seen its share of inter-agency competition, squabbling and self preservation that have nothing to do with serving clients. It's for this reason that the World Trade Center in Pittsburgh is a founding member of the Western Pennsylvania Export Assistance Consortium, an unincorporated group of agencies that include the regional offices of the U.S. Commerce Department, U.S. Small Business Administration, the District Export Council of Western Pennsylvania, the Ben Franklin Technology Center and the Southwestern Pennsylvania Regional Development Corporation. Recently the consortium was designated the Commonwealth's export promotion agency for Southwestern Pennsylvania including as we do representation from local, county, State and Federal levels of government and from public and private sectors.

The Western Pennsylvania Export Assistance Consortium members have agreed to function as an integrated service-delivery system, providing cross-marketing, cross-training and cross-referrals to clients. We're integrating our intake procedures to spare clients the headache of having to provide the same information to multiple agencies whose relationship to each other have no meaning in the client's eyes. We will be conducting integrated staff meetings to ensure that information about clients is transmitted and to coordinate our programming.

The members of the consortium have informally discussed and welcomed the goals and action points of the National Export Strat-

egy report. I'd like to use this opportunity to suggest that World Trade Centers throughout the United States would be ideally suited to serve as the one stop shop referred to as Model B in chapter three of the report. Secretary Ron Brown in a letter to Guy Tazzoli, president of the World Trade Centers Association said, "we view fully functioning world trade centers as the truest 'one-stop shops' now in operation in the United States. I would welcome any opportunity to discuss the World Trade Center in Pittsburgh with you and your staff at your convenience."

There are two additional points I'd like to make regarding the document. The first has to do with export finance. Chapter four of the National Export Strategy Report discusses private sector participation in U.S. Government loan guarantee programs and says, "few lenders aggressively seek this type of business." I think this is a euphemistic understatement of what appears to be an aggressive effort to avoid this type of business. I mentioned earlier that one of the strategic markets identified by the World Trade Center in Pittsburgh for its members and clients is Latin America.

After hearing from several companies that they were having difficulty in obtaining export financing from officially designated Eximbank lenders in Pittsburgh to support their efforts in Latin America, we sponsored a day-long seminar on financing trade with Latin America. Our program included presentations by Eximbank as well as TDA, OPIC, the National Bank of Mexico and the Banco Santiago from Chile. Although we marketed this seminar from the banking community, not one Pittsburgh bank contacted us to volunteer a speaker as service providers frequently do when we organize programs of this nature.

The private bank that participated in the seminar was ABN-AMRO bank, a Dutch-owned bank with U.S. headquarters in Pittsburgh, and an active user of Eximbank guarantees. The program was very well attended by representatives from approximately 80 small and medium sized companies, many of them customers of prominent Pittsburgh lenders, who, as I said, are the officially designated contacts for Eximbank in Pittsburgh. Neither during the presentation by the Eximbank representative, nor during the question and answer period that followed, did either of the two local lenders attending the seminar make any mention of their bank's activities in export lending. The other major banks sent no representatives at all.

I disagree that small and medium sized companies are unaware of the USG lending programs. As a group, they're pretty well informed. I think that the far greater need is to provide banks with significant additional, even if they're only temporary, incentives to move them past what appears to be their aversion to doing small deals of this nature. The recommendations on this matter in the report don't really address the problems adequately. Again, I want to make the point that the banks should not be forced to do deals that aren't credit worthy. I think the issue has to do with what incentives do they need to use the programs that exist.

The second point concerns the Advocacy Network which helps U.S. firms to compete for major government contracts around the world. Last year I had the opportunity to get to know and to work with the United Nations Industrial Development Organization.



UNIDO is the only United Nations agency authorized to work directly with private enterprise. UNIDO's mission is to do project feasibility studies for member nations which it does very much like TDA or OPIC. But in addition, UNIDO sets up trust funds, capitalized by private sources, in each country to assemble financing for projects. Because of its role with regard to financing, in many cases, UNIDO can implement projects relatively quickly and can provide third party oversight in countries perceived to be high risk.

UNIDO is headquartered in Vienna, but has offices in Washington and New York. They're an excellent organization with knowledgeable people and high credibility in the countries they serve. The TPCC Advocacy Coordinating Network probably should have a direct liaison to UNIDO in addition to the other organizations.

Thank you very much.

The CHAIRMAN. Thank you. Well, let me you ask this, when do you have to leave?

Ms. BRADLEY. Not for 45 minutes.

The CHAIRMAN. Mr. Montgomery.

**STATEMENT OF MICHAEL MONTGOMERY, DEPUTY SECRETARY FOR BUSINESS DEVELOPMENT, PENNSYLVANIA DEPARTMENT OF COMMERCE, HARRISBURG, PA**

Mr. MONTGOMERY. Thank you very much, Senator I'm so happy to be with you today and I wish to make mention of how wonderful it is that you're hearing these testimonies. I think it's going to be great for Pennsylvania and great for our country.

I'm here on behalf of Governor Casey and Secretary of Commerce, Andrew Greenburg, and I look forward to sharing with you our perspective on Federal export programs, a commentary on the Federal export plan that has been recently published and an overview of Pennsylvania's export strategy programs.

Several initiatives operated through a number of Federal agencies have been available for American companies, of course. I have submitted the full text into the record, the commentary for today. So, I'm going to just give an overview if you wouldn't mind.

These agencies, of course, are involved in the areas of counseling, product-specific advice, financing and finance guarantees, insurance underwriting, marketing assistance, minority export assistance and other areas. Unhappily the classic argument relative to the access and/or efficiency of government programs often rings true.

The time it takes to access financing programs, for instance, is often quite lengthy. The U.S. Export-Import bank, Eximbank as it is commonly known, is marketed as a financing program for small businesses; however, Senator, it is rare that small businesses actually access these dollars. Even banks, the financing vehicles for Eximbank are often reluctant to entertain smaller companies' financing requirements. Many agencies at the Federal level do not operate in a coordinated fashion; therefore, if a business person cannot be assisted by one office, he or she may not be normally directed to another office for assistance.

One bright spot in the Commonwealth of Pennsylvania, notwithstanding that there has been testimony already this morning about what the Federal Government agencies don't do, is that we have



had a good working relationship with the offices of international trade through the Commerce Departments in Pittsburgh and Philadelphia. And that has been on a face-to-face, one-on-one basis as they have worked with us on certain trade shows.

I'm sure, of course, there are improvements that can be made on all fronts, including on the fronts in which my staff operates.

With regard to the new Federal export plan, this latest export assistance initiative under way by the Federal Government attempts to take the basic idea of a comprehensive initiative and streamline it in order to develop a more effective and efficient delivery system. For this, we are hopeful, Senator, of positive results being forthcoming for U.S. businesses at all levels and in particular for Pennsylvania businesses. The proof of these adjustments, however, will be in the realization of economies of scale, proper implementation of strategies and appropriate follow up to see where adjustments can be made.

The new strategic plan appears to look at the one stop shop concept and tries to put it into several categories. Combining functions of certain Federal agencies, allocating resources strategically, involving the private sector in their deliberations, advocating aggressively on behalf of companies, measuring their performance to make adjustments and reducing export controls. As was alluded to in the earlier panel, reducing export controls both here in the United States as well as in foreign locations is so critical to every business who would like to be involved in exporting but particularly for the small business.

With regard to Pennsylvania's export strategy as you noted in your opening testimony, Senator Wofford, Pennsylvania is now found in the top 10 among states that are involved through their businesses in exporting. Just last year exporting of non-agricultural products in Pennsylvania was in the \$12.9 billion range. We would like to do even better, but we think we're also on the right track. The national increase in terms of export work over the last year has been a 13 percent increase while Pennsylvania companies have increased at the tune of 16.9 percent. We're really heartened by that and look forward to even greater advances as we go forward.

The CHAIRMAN. Let me just get that again. The national increase in exports?

Mr. MONTGOMERY. 13 percent. And Pennsylvania 16.9. Mr. Cotten mentioned in his earlier comments the work that he has enjoyed with the Pennsylvania Department of Agriculture. While my office works with industrial companies in Pennsylvania and while we don't currently on today's panel have someone from the Department of Agriculture, let me give them kudos. They are great colleagues of ours and Pete Witmer is an example of the kind of work that comes out of that office in Harrisburg.

With regard to trade events, Senator, our staff members are involved with trade events throughout the world. And we try to bring Pennsylvania companies into those activities through trade shows that offer those companies the opportunity to test the market, access the competition and establish business contacts so that they might be able to increase their export opportunities. Within our own Office of International Trade, we have five trade specialists who are available to work with industrial companies, particularly

small- to medium-sized companies with respect to their trade activities.

The areas of the world in which we are involved in the export business are Asia, Canada, Western Europe, Central and Eastern Europe, Mexico, Latin America, Africa, the Middle East and India.

I would like to mention briefly in terms of our guests from Africa earlier this morning that Pennsylvania has never taken a trade mission to Africa in the entire history of this state until this April when our Department of Agriculture, along with Dak International, will take its first trade mission to Africa. We will be going to the Republic de Guinea and we hope to have that as a good spring board for future work on the continent of Africa. And we think there lies a great opportunity for Pennsylvania businesses.

Our three fully staffed foreign offices serve globally as the touchstone for businesses when they are in certain parts of the world. Out of Tokoyo, Japan, businesses are able to work with the Japanese market as well as stepping off into the market on the Pacific rim that offers one of the great opportunities we think for trade for Pennsylvania companies. Likewise, we have offices in Frankfurt, Germany, and Brussels, Belgium. And we share through the Great Lakes Consortium of States an office in Toronto, Canada, for our number one trading partner company, that being Canada.

Therefore, if small businesses would initially like to have their foot in the door in the area of international trade, we certainly suggest that they try Canada, the language obviously is the same, the access is very easy and we have an office in Toronto where we can get them into the door right away and then they can get their feet wet.

During the last year, our office participated in trade shows throughout the world, 10 in particular that were designated for the particular product, such as chemicals or plastics or medical equipment. And we hope to do that and even more in the coming year.

During the same year our office participated in trade events in Spain, Portugal, Latin American countries times five, Italy, Germany, Southeast Asia and the United Kingdom. As was discussed earlier, in those environments we're also happy to represent a company's interest in telling a product's story even though the company example is not there by virtue of their executives. Therefore, they would brief us and then we would brief the customer.

As a result of our participation in these trade shows and trade day events, 283 companies received 3,400 trade leads this past year. Since 1987 alone, trade shows and trade events participation in Pennsylvania through Pennsylvania's Department of Commerce have resulted in almost 12,000 leads and \$847 million in export sales for an estimated creation of 16,000 jobs.

We're really excited, about a new program that has just been introduced this past year in our Department of Commerce known as the Pennsylvania Export Partnership. Through that program, we're able to work with small businesses who are brand new to exporting or would like to try getting into the export business but might be only one or two thousand or 25 hundred dollars away from getting their feet in the door. With this, we would like to entertain small companies who would benefit by an up to \$2,500 grant to go with us to a trade show, we escort them through, provide them with the

language work through our interpreters and try to get their product introduced and then do that in a follow up once they come back to Pennsylvania.

As was mentioned by Mame Bradley and I'm sure will also be discussed briefly by RoseAnn Rosenthal from PIDC, we are working with a network of resources throughout Pennsylvania who are regional providers in a consortium fashion to work with that program and others. We think they're doing an absolutely wonderful job.

With respect to our export financing, Senator one of the new areas for which I have responsibility is to be the bank relationship development officer for our Department of Commerce. In that, I'm in contact with the senior lending officers and CEOs of every bank in Pennsylvania, introducing them as they've been introduced down the line into their particular banks, our programs not only with regard to export financing but also with regard to the other financing programs in Pennsylvania.

And I will dare say that small companies and medium-sized companies in Pennsylvania can also take advantage of the financing programs that we have in the Department of Commerce that are designed not specifically for exporting but to help the company buy additional machinery so that they can produce additional products so that they might be able to enter the export field. As you know, Pennsylvania has one of the great sets of economic development programs at the State level in the country.

Finally, with regard to some other very interesting inhouse programs with which we are very excited, we have a data base network that is available to help companies be able to know how to market their product and to what countries vis-a-vis what products are being expected to be purchased by countries throughout the world.

We also have a Minority Export Development and Technical Assistance Program known as MEDTAP that is developed intra-agency through our Pennsylvania Minority Business Development Authority and our Office of International Trade. And we've worked in conjunction with a private firm in Pennsylvania, in Philadelphia in particular, that is International with its CEO, Stanley Struder. That relationship has resulted in arranging over \$45 million in international trade financing for Pennsylvania firms, assisted Pennsylvania firms in acquiring over \$24 million of international procurements and provided technical assistance in general to about 300 minority owned firms.

In conclusion, Senator, we intend to continue these efforts. And we are committed to working closely with our Federal and local partners in achieving the goals of the Trade Promotion Coordinating Committee's national export strategy.

Thank you, Senator.

[The prepared statement of Mr. Montgomery follows:]

PREPARED STATEMENT OF MICHAEL J. MONTGOMERY, PENNSYLVANIA DEPARTMENT  
OF COMMERCE

Senator Wofford, my name is Michael Montgomery. I serve as Pennsylvania's Deputy Secretary of Commerce for Project Management.



On behalf of Governor Casey and Pennsylvania Commerce Secretary, Andrew Greenberg, I am pleased to join you today and offer comments about the area of export trade from a perspective of both Federal and State initiatives.

My remarks will cover:

- A perspective of Federal Export Programs.
- A commentary of the Federal Export Plan.
- An overview of Pennsylvania's Export Strategy and Program.

#### FEDERAL EXPORT PROGRAMS

The positive attributes about Federal assistance in the area of exporting is that there are several initiatives operated through a number of Federal agencies including:

- U.S. Department of Commerce
- U.S. Small Business Administration
- United States Export-Import Bank
- U.S. Department of Agriculture
- Overseas Private Investment Corporation
- U.S. Department of State
- Department of the Treasury
- Agency for International Development
- Office of the U.S. Trade Representative

Each of these Federal agencies offer diverse services to domestic exporters including services such as:

- Counseling
- Product-specific advice
- Financing and finance guarantees
- Insurance underwriting
- Marketing assistance
- Minority export assistance

Indeed, the United States government provides some of the most comprehensive trade assistance programs of any country in the world.

Unhappily, the classic argument relative to the access and/or efficiency of government programs often rings true.

The time it takes to access financing programs is lengthy.

The U.S. Export-Import Bank (Eximbank as it is commonly known) is marketed as a financing program for small businesses. However, it is the rare small business who actually accesses these dollars—even banks (the financing vehicle for Eximbank) are often reluctant to entertain smaller companies' financing requirements.

Many agencies at the Federal level do not operate in a coordinated fashion; therefore, if a business person cannot be assisted by one office, he/she may not be directed to the proper office from which assistance may be given.

One bright spot, regarding our relationship with Federal agencies, has been the district offices of the U.S. International Trade Administration (U.S. Department of Commerce).

Indeed, our relationship with the staff of both the Pittsburgh and Philadelphia offices has been most helpful to our work with Pennsylvania companies. Moreover, as we develop trade missions, much of this work is accomplished in concert with the professionals at the district offices.

#### THE NEW FEDERAL EXPORT PLAN

The latest export assistance initiatives underway by the Federal Government appear to take the basic idea of a comprehensive initiative and attempt to streamline it in order to develop a more effective delivery system. For this, we are hopeful of positive results being forthcoming for U.S. businesses at all levels.

The proof of these adjustments will require the setting of goals—proper implementation of strategic changes—and appropriate follow-up and adjustments.

The new strategic plan (as reported to the U.S. Congress on September 30, 1993) wraps the new direction of Federal export assistance around six major themes:

- Combine Functions: Carefully define the client groups and their needs for export promotion services, focusing specific agencies on meeting particular customer requirements, eliminate overlap and duplication, and consolidate program services.

—Allocate Resources Strategically: Develop a unified export promotion budget that will permit the U.S. to set clearer priorities and serve U.S. commercial interests more efficiently.

—Involve the Private Sector: Combine resources of the private sector and State/local governments with those of the Federal Government wherever possible to expand and improve service and financing. The Federal Government must become a wholesaler, not a retailer, of trade promotion services.

—Advocate Aggressively: Greatly expand official, high-level government advocacy for U.S. firms seeking contracts from other governments and create mechanisms to level the playing field by effectively countering the advocacy practices of other governments.

—Measure Performance: Develop and implement performance measures to guide decisions and improve strategic focus.

—Reduce Export Controls: Reduce export controls and other government imposed obstacles to exports, consistent with U.S. national security, foreign policy, and health and safety interests.

(Toward a National Export Strategy Report to the U.S. Congress, 1993—Trade Promotion Coordinating Committee.)

I will share with you some of the export trade development programs the Pennsylvania State Government is conducting which embrace many of these same concepts of increasing service delivery systems, combining resources efforts, and streamlining the delivery of export assistance services.

The American business executive and employee alike wants to take full advantage of our global economy. The new strategic plan should do much to enable American companies to accomplish this goal.

#### PENNSYLVANIA'S EXPORT STRATEGY

In Pennsylvania, our International Export Trade Strategy has been developed around the mission of helping small- and medium-sized manufacturers in Pennsylvania create export sales opportunities through an export assistance program. In terms of industry sector, we have been moving towards promoting the high-tech industries that are new, small and entrepreneurial. The Office of International Trade acts as a wholesaler of export information and trade leads for Pennsylvania businesses. Through cooperative efforts with local development agencies, the Commonwealth's three overseas offices, and the two Federal district offices of the International Trade Administration of the U.S. Department of Commerce, trade opportunities are developed and matched with appropriate Pennsylvania companies.

#### TRADE EVENTS

The Commonwealth has an active program that promotes the participation of Pennsylvania companies in trade events, such as trade shows and trade missions around the world.

International trade shows offer companies the opportunity to test a market, assess the competition, and establish business contacts. A company can also develop new prospects and product ideas and gain a better understanding of the global marketplace. Working closely with the trade multipliers and with industry representatives to determine which shows the state will participate in, the Office of International Trade rents booths at trade shows to feature Pennsylvania companies and their products.

A trade specialist from the office attends the trade show, along with the company official, or the trade specialist may represent the company's products and display literature and samples on behalf of the companies. The trade specialist further assists the company by transporting their samples, hiring translators, doing pre-show mailings, and helping with the follow-up on leads generated at the show.

The Office of International Trade also participates in Trade Day events and offers these opportunities to Pennsylvania companies. Trade Day events are a forum for potential foreign agents or distributors to consider the possibility of representing a particular Pennsylvania company's products.

Within the Office of International Trade, there are five trade specialists each assigned a specific geographic area, e.g., (1) Asia, (2) Canada and Western Europe, (3) Central and Eastern Europe, (4) Mexico and Latin America, and (5) Africa, the Middle East and India.

These specialists work in concert with Pennsylvania's three fully staffed foreign offices located in Brussels, Belgium; Frankfurt, Germany; and Tokyo, Japan. And through our participation in the Great Lakes Governor's Program, we maintain a relationship with that organization's office in Toronto to promote trade activities in Canada.

The Asia trade specialist works closely with our Tokyo office. The trade specialist for Canada and Western Europe works with our office in Brussels and the Great Lake's office in Toronto. The trade specialist for Central and Eastern Europe works with our office in Frankfurt. Because, as of yet, we do not have offices elsewhere, trade in Latin America, Mexico and Africa is coordinated out of our Department of Commerce offices.

Considering the small size of the office, the activity and results generated through the trade event program have been impressive.

During the last fiscal year, the office participated in seven trade shows:

- Pittcon in the U.S.
- Canadian High Tech Show In Toronto, Canada
- Rep Com '93 in Mexico City
- Cebit in Hannover, Germany
- Interzum in Cologne, Germany
- Comp Fair in Budapest, Hungary
- Taipei Electronics in Taiwan

During this same year, the office participated in trade day events in Spain, Portugal, Latin America, Italy, Germany, Southeast Asia, and the United Kingdom.

As a result of our participation in these trade shows and trade day events, 253 companies received over 3,000 trade leads.

From January 1987 to November 1993, trade show and trade day event participation resulted in the generation of 11,937 leads, which have resulted in \$847 million in export sales and the creation of an estimated 16,000 jobs.

#### PENNSYLVANIA EXPORT PARTNERSHIP PROGRAM

To facilitate a company's participation in trade shows, a new program, the Pennsylvania Export Partnership (PEP), is now being offered through the Office of International Trade.

Recognizing that many of our small- and medium-sized companies were having difficulty in participating in many of our export trade programs, specifically, that some of our small- and medium-sized companies could not afford to attend a trade event so that they could assess their products potential for exporting, Governor Casey initiated the Pennsylvania Export Partnership (PEP) Program. Beginning in July 1993, the Office, through the PEP Program, began offering qualified companies up to \$2,500 to cover certain expenses incurred as a result of their participation in trade events around the world.

Since July 1, 1993, under the Trade Event Grant Program, we have made a total of 71 awards to companies who have or will attend, participate and/or exhibit at a foreign trade event.

The PEP Program also provides grant funds to assist in the operation of regional export development programs. Ten Regional Export Service Providers have been selected covering the entire state.

The Regional Export Service Providers are responsible for providing direct help to the small- and medium-sized companies in their service areas. They will provide market research to companies for specific products in a specific foreign country. They will aid companies in the evaluation of trade events and shows that are specific to their products and will help complete and verify the application and other requirements necessary to qualify the company for a Trade Event Grant.

#### EXPORT FINANCE PROGRAM

In conjunction with the Department's efforts to identify export sales opportunities, the Pennsylvania Department of Commerce is working to meet the financing needs of Pennsylvania's exporters through its Export Finance Program. A major component of this effort is the City/State Program. This is a joint program between Eximbank and the Department to assist Pennsylvania's small- and medium-sized businesses understand and make greater use of Eximbank's loan, guarantee and insurance programs. The export finance specialist at the Department has received training on Eximbank's programs and will preprocess applications submitted by Pennsylvania businesses. An Eximbank program officer has been assigned to handle all applications from Pennsylvania and give them priority service.

The Pennsylvania Office of International Trade also offers Pennsylvania exporters the opportunity to participate in a Shared Foreign Sales Corporation (SFSC) through which they can qualify for a 15 percent tax exemption on export sales.

We also offer assistance to Pennsylvania businesses who are interested in accessing financing programs and export opportunities available through Federal



agencies and multilateral development banks such as the World Bank, the Asian Development Bank, and USAID.

#### OTHER PROGRAMS

In addition, we provide to Pennsylvania small- and medium-sized companies access to an International Trade Network of organizations and associations around the world. This network comprises access to banks and provides additional resources to a company to identify representatives or buyers for their specific products.

The Office also offers a variety of technology transfer and education programs. For example, it organized a series of four seminars around the State last year featuring a speaker from the U.S. Embassy in Germany who discussed the manufactured housing market in Central and Eastern Europe.

The Office of International Trade also provides country marketing information. Resources are available on technical, export information by country. Our in-house database and files contain industry information by country, economic data, export document requirements, shipping information, and other general country information.

Other resources provided through the Office of International Trade include an extensive range of informational and statistical documents and directories. Industry-specific directories are available for the major industry sectors in Pennsylvania, including the chemical and pharmaceutical industry, the environmental industry and medical products, among others.

The Pennsylvania Department of Commerce has, also, embarked upon a very aggressive strategy to attract minority-owned businesses to the opportunities associated with export trade. The Minority Export Development and Technical Assistance Program (MEDTAP) is an intra-agency project between the Pennsylvania Minority Business Development Authority and the Office of International Trade. We have contracted with a private firm, DAC International, to provide export assistance to minority entrepreneurs.

This project has, since 1991, netted remarkable results, including:

- Arranging over \$45 million in International trade financing for Pennsylvania firms;
- Assisted Pennsylvania firms to acquire over \$24 million in international procurements; and
- Provided technical assistance and general export counseling to over 300 minority-owned Pennsylvania firms.

#### CONCLUSION

The Department of Commerce, Office of International Trade, provides a wide variety of export service programs for Pennsylvania companies. We believe that these programs are critical to both creating new jobs and in maintaining existing jobs within the Commonwealth. We intend to continue these efforts and we are committed to working closely with our Federal and local partners in achieving the goals of the Trade Promotion Coordinating Committee's National Export Strategy.

The CHAIRMAN. Thank you for your testimony and for providing your full statement, too, that we'll study. That's true of all the other statements that are not able to be briefly summarized.

Ms. Sifer.

#### STATEMENT OF KATHLEEN SIFER, FIRST VICE PRESIDENT, MELLON BANK N.A., PITTSBURGH, PA

Ms. SIFER. I'm pleased to be an invited participant in today's discussion on the U.S. government export promotion efforts. And on behalf of Mellon Bank I'd like to thank you, Senator Wofford for including us in this event.

Commercial bank involvement in trade finance decreased dramatically through the 1980s as many banking institutions were saddled with problem loans in the lesser developed countries of the world, particularly in Latin America. Mellon Bank was not unique, and was burdened by LDC debt problems which resulted in a contraction in the bank's international activities. While the bank was retreating internationally, one area of international lending contin-



ued to remain to be a viable business activity, trade finance. Mellon's continuing involvement in trade finance is in large part a result of the availability of the U.S. Government programs such as U.S. Export/Import bank guarantees, intermediary loan programs as well as the former insurance programs of the Foreign Credit Insurance Association which has now been absorbed by the Eximbank.

It is our view that the U.S. Export-Import Bank plays a valuable role in supporting U.S. exports and fostering U.S. export activity. As a user of the Eximbank programs, Mellon Bank supported the Senate action on the fiscal year 1994 funding for the Eximbank and was pleased to see the approved increase in level of support with a \$1 billion total budget authority for fiscal year 1994. The removal of the cap placed on the Eximbank's program activity also was a favorable change that will allow the Eximbank the flexibility to administer its budget authority through the credit subsidy calculation. This change enabled the Eximbank to support a higher dollar value of U.S. exports.

We are of the opinion that the U.S. Congress should continue to appropriate sufficient funding to the Eximbank to ensure its competitiveness in the world export markets, particularly vis-a-vis the other export credit agencies. We believe that the U.S. Export/Import Bank has become a much more market oriented financial institution over the past few years which should give the U.S. exporters a competitive edge in the global export arena.

Some of the positive changes that have occurred since 1987 include enhancements to its guarantees, the ability to finance exposure, legal and other type of fees, and the flexibility to choose between different payment mechanisms. Most importantly I think for the small business and medium sized exporters the increase in the guarantee cover of the Working Capital Guarantee program from 90 percent 100 percent.

Unfortunately, the Trade Promotion Coordinating Committee has recommended that this cover be harmonized with the 85 percent cover provided by the Small Business Administration's export working capital line of credit program. The proposed harmonized guarantee cover would be 90 percent.

At Mellon Bank we have benefitted from some recent changes enacted at the Eximbank since the Honorable Kenneth Brody became its chairman. Specifically Mellon Bank was concerned that the Eximbank was limiting access to certain countries via Credit Guarantee Facilities and was restricting the ability of banks to service requirements of their exporting clients.

We recommended to the Eximbank that sufficient credit availability be retained in all markets to support individual client transactions and that the Eximbank should instruct its officers to consider single buyer transactions in particular markets. The Eximbank agreed with Mellon's position and reopened the market in question at this time, it was Algeria, and we were able to satisfy a Pennsylvania exporter.

It's important to note that the Eximbank is currently in the process of obtaining input from both the export community and commercial banking sector on a number of proposed changes to its operations and programs. We've been pleased by the Eximbank's

proactive approach in both its reinventing process and its active solicitation of the export community's comments on its reinventing proposals.

I'd like to take a moment to comment on some of these proposals and on how they might impact the export community. My focus, of course, is more towards the trade financing aspects.

Medium-term export financing support is currently available from the Eximbank in the form of 100 percent unconditional guarantee and a 90 percent insurance product. Turnaround from the Eximbank on the guarantee program is inordinately longer than the length of time to process insurance. Time delays can result in exporters losing out on contracts.

The Eximbank's proposed solution is to offer an unconditional guarantee for time sensitive transactions. The conditionality of the guarantee may not be acceptable to banks and may impact the interest rate charged on the transactions which could make the exporter lose the contract. It would appear that the Eximbank should attempt to re-engineer the approval process to reduce the processing time of the guarantee rather than reducing the guarantee coverage.

Regarding the Working Capital Guarantee program. Another reinventing proposal by the Eximbank is to harmonize the guarantee coverage as I've mentioned to 90 percent and also to permit a delegation of authority of up to \$2 million per borrower for qualified lenders. Because this program is directly linked to the small- and mid-sized exporters, it's critical to ensure that the programs can be effectively marketed to small- and mid-size exporters and that commercial lenders are willing to share in the 10 percent risk.

While Mellon Bank supports Eximbank's effort to delegate authority to qualified lenders, as this will enable Eximbank to leverage its available lending officers, we believe that the proposed risk retention of ten percent will be prohibitive for many banks. After all, these programs generally support undercapitalized exporters who do not have the financial strength to obtain financing on their own in the commercial banking community. Perhaps a retention rate of less than ten percent should be considered.

The success of this program will also be directly linked to the ability of the SBA and Eximbank to effectively market the program. The one-stop regional offices recommended in the TPCC report should assist in both the marketing and distribution of this program. In general, we believe the concept of the one-stop shop to be a great idea as we often hear from exporting customers, particularly smaller exporters and/or the new-to-export companies, that they're overwhelmed by the number of local, State and government offices which claim to offer export assistance. Should the pilot offices that have been established prove to be successful, we would hope that those offices would be expanded to other major exporting states, including Pennsylvania.

While not included in the reinventing proposals, we would like to make two suggestions for additional proposals to be considered.

The first is that of delegated authority. Pre-1987 the Eximbank granted a delegated authority to qualified lenders under its medium term guarantee program. We believe this concept should be re-evaluated to enable the Eximbank to support a greater volume

of transactions with its existing resources. Commercial banks may be willing to assume some risk in exchange for this delegated authority.

The Eximbank short term insurance program should be re-evaluated to stimulate usage from small- and mid-size companies. The re-evaluation should address the individual versus the pooled receivable concept. This Eximbank program requires individual invoice tracking versus the commercial banking convention of advancing against pooled receivables. Individual tracking is too cost prohibitive for commercial banks to use and many banks then exclude foreign receivables from their customer's borrowing bases, limiting the amount of financing available to small- and mid-size exporters.

While I've focused largely on the Eximbank, I'd like to mention one government-sponsored program that has been very successful in matching exporters seeking trade financing with banks that provide trade finance services. The program is called AXCAP (Access to Export Capital) and is funded by the Commerce Department and is managed by the Banker's Association for Foreign Trade (BAFT). Since the program's initiation in November 1993, AXCAP has matched some \$1.3 billion in financing for exporters with transactions ranging in the size of \$35,000 to \$400 million. AXCAP is a free service that is accessed through an 800 number. We would encourage the expansion of this type of program because it benefits the small- and mid-sized exporters.

In summary, Mellon Bank is encouraged by the current administration's emphasis on providing assistance to the U.S. export community and believes that the U.S. Eximbank provides a valuable service to the community. Through its reinventing process the Eximbank should be able to effectively assist the small-, mid-size and large corporate exporters expand their export activities. At Mellon Bank, we will continue to be an active and satisfied user of these programs.

Thank you.

The CHAIRMAN. Thank you. Ms. Rosenthal.

**STATEMENT OF ROSEANN ROSENTHAL, SENIOR VICE PRESIDENT, PHILADELPHIA INDUSTRIAL DEVELOPMENT CORPORATION, PHILADELPHIA, PA**

Ms. ROSENTHAL. Thank you. While I am with the Philadelphia Industrial Development Corporation, today I'm here on behalf of the Southeastern Pennsylvania Export Consortium, a relatively new, five-county, 12 member association of economic development organizations which, we believe, establishes a model for integrated functional cooperation around the specific objective of export promotion. As Mike mentioned, we have been designated by the Commonwealth as the provider in the southeast region under the Pennsylvania Export Partnership program.

The impetus for the creation of the Export Consortium can be found in what we call "Strategy 21"—"A Regional Strategy for Industry Competitiveness." Strategy 21 is a unique partnership among 21 organizations from the Southeastern Pennsylvania utility, economic development, and port communities. Its function is to provide a context and a process to enable us to focus on and imple-



ment specific initiatives that will improve the region's competitive position.

The Export Consortium is one of the most critical of those initiatives. Its specific objective is to increase the ability of area companies to identify, penetrate and be competitive in global markets. To do this, we assembled around our table a mix of organizations including export promotion agencies who provide export promotion services together with organizations who work with companies to develop and commercialize new products, design and implement innovative production functions, and finance both.

Encouraging innovative products and production methods is a major concern in Southeastern Pennsylvania. Several years ago, a Core State Bank Business Survey showed that among manufacturing respondents to the survey in the five counties, 70 percent defined their primary product as "mature/stable". Another 10 percent defined it as "mature/declining" and only 20 percent reported new products with rapidly increasing sales.

It's our belief that if we are to be internationally competitive, if we are to succeed in exporting, we need to increase the 20 percent and we need to convert some of that 70 percent to "mature but growing" firms.

I'm sorry that Aleda Loughman isn't here. When we began the notion of the Export Consortium, we pulled together a focus group of exporting companies to get a sense of what it was they needed to help us define the mix of services that we would be providing. And financing for ISO-9000 was one of the issues that they identified.

In response, we worked with the Delaware Valley Industrial Resource Center and we now have a mini financing program to help companies who need additional financing for that particular need, for ISO-9000.

Our approach to export development can be illustrated by the case of the Natco International Division of Atlantic Metals Corporation. Atlantic Metals is a Philadelphia firm, formed in 1939, that manufactures and exports metallurgical powders used by the steel industry. Over a decade ago, Natco expressed a desire to enter foreign markets but was ill-equipped to do so because of an obsolescent product line. The Ben Franklin Technology Center of Southeastern Pennsylvania assisted Atlantic to develop new products. Then the Philadelphia Industrial Development Corporation participated with investments for new machinery and equipment necessary to manufacture the new products. Finally, the Delaware Valley Industrial Resource Center continues to assist Atlantic in several areas, including the implementation of Total Quality Management. Today they export on an established basis to Canada and Venezuela and are exploring several other South American markets. The point is that traditional export promotion strategies would have been of no use to Atlantic Metals if they had not first reinvented their company with respect to the quality process.

We believe this example has applicability to the National Export Strategy. Appendix D of the Strategy summarizes the purpose of the Trade Promotion Coordinating Committee as one of providing "... a framework to develop a strategic plan and to coordinate the government's export promotion and export financing activities."



While promotion and financing are important to any strategy designed to encourage exports, and while the benefits and leverage that come from the coordination of efforts should not be minimized—indeed, that has been an organizing principle of the Southeastern Pennsylvania Export Consortium—we submit that this approach falls short because it fails to include a third set of issues—those that focus on making U.S. producers world class competitors.

The National Export Strategy takes a step toward recognition these issues in its discussion of the role product standards and certification requirements. But it is indicative that this discussion occurs in a chapter entitled “Regulatory Obstacles to Exports” rather than within a context that describes the contribution, such standards can make by stimulating companies to create and upgrade their competitive advantage.

One way to help nurture this perspective is to include those who represent it in the discussions of the Trade Promotion Coordinating Committee. We note that the TPCC anticipates broadening its representation beyond those entities traditionally associated with trade promotion. We would go a step further and urge that agencies such as the Department of Commerce, DOD and SBA draw on the experience of certain of their non-trade directed departments—the National Institute of Standards and Technology, the Small Business Innovation Research program, as they develop input to this group.

Some of this cross fertilization is touched upon in the Strategy’s discussion of Environmental Technologies Exports. We would recommend that this interdisciplinary approach be extended to other industrial sectors and that export promotional activities be tied more closely to strategies for improving the competitiveness of specific industries and industrial clusters.

Finally we would like to add our voice to those calling for attention to the issue of export finance. The paperwork and time costs involved with government supported finance programs often make them structurally unsuited for the small- and medium-sized business and unattractive to many commercial lenders. The National Export Strategy has as a goal the creation of “. . .an enhanced export financing role by State and local finance entities, (including local port and industrial development authorities). . . ” We concur with this goal and have offered specific comments and recommendations in our written testimony.

The Export Consortium, as part of its 1994 work plan, is addressing the issue of export finance. We would welcome the opportunity to work with your staff and others to develop mechanisms that will be effective at increasing business access to Federal Government financing.

In conclusion, we applaud the attention to export promotion but we urge that the mission be broadened beyond one of promoting the U.S. as a country that produces quality products, and incorporate measures to ensure that the U.S. is a nation that produces quality products.

[The prepared statement of Ms. Rosenthal follows:]

PREPARED STATEMENT OF ROSEANN B. ROSENTHAL, PHILADELPHIA INDUSTRIAL  
DEVELOPMENT CORPORATION

My name is RoseAnn B. Rosenthal, and I am Senior Vice President at the Philadelphia Industrial Development Corporation ("PIDC"). PIDC was organized in 1958 as quasi-public partnership of the City of Philadelphia and the Greater Philadelphia Chamber of Commerce. One of the Nation's first examples of a public/private partnership, it continues to be a national model for economic development organizations.

Today I am here on behalf of the Southeastern Pennsylvania Export Consortium, a 5-county, 12-member association of economic development organizations which, we believe, establishes a new model for functional cooperation around a specific objective—in this case, exports.

The 12 Consortium members bring extensive experience to this mission, both through the strengths of their individual organizations and through the collective background and experience of their staff. Submitted, as part of the written testimony, is information on each of the Consortium's participants.

The impetus for the creation of the Export Consortium can be found in what we call "Strategy 21"—"A Regional Strategy for Industry Competitiveness." Strategy 21 is a unique partnership among 21 organizations from the Southeastern Pennsylvania utility, economic development, and port communities. Its function is to provide a context and a process to enable us to focus on and implement specific initiatives that will improve the region's competitive position. The Export Consortium is one of the most critical of those initiatives, and its members are drawn from the organizations represented in Strategy 21.

The Southeastern Pennsylvania Export Consortium represents an unprecedented level of voluntary cooperation and coordination among the 12 consortium members to direct existing resources, and leverage new resources, on one specific objective—increasing the ability of area companies to identify, penetrate and be competitive in global markets.

To quote from the National Export Strategy, the "New equation for the economic future: Exports-Jobs." The presence and growth of internationally competitive enterprises in our region means job opportunities. In Pennsylvania, exports are a big and growing sector of the economy. Merchandise trade exports for 1992 are estimated at \$12.1 billion. This represented a 7.1 percent increase over 1991's level and it, in turn, represented an 8.6 percent increase over 1990.

Using the familiar constant from the U.S. Department of Commerce that every \$1.0 billion in exports supports 19,100 U.S. jobs, the current level of Pennsylvania exports implies that 231,110 Pennsylvanian jobs can be attributed to exports—equivalent to about 5 percent of total Pennsylvania employment.

It is estimated that Southeastern Pennsylvania holds a 40 percent share of state-wide exports, or approximately \$4.84 billion in 1992. Exports at this level support 92,444 jobs in Southeastern Pennsylvania, equivalent to about 5.5 percent of total employment in the five counties. All these impacts are based on merchandise exports. Because data on the export of services is extremely unreliable, even at the U.S. level, it is reasonable to assume that these impacts would be higher if "invisible" exports such as medical and engineering services could be captured—areas of strength in Southeastern Pennsylvania.

The need to create job opportunities is particularly acute in the Delaware Valley which has suffered larger Federal civilian job losses than any state in the country as a result of BRAC-91—almost 10,000—more than one-third of the national total. And this does not account for job losses resulting from business lost to the defense sector as a result of the general defense build-down.

In 1990-91 the Pennsylvania Industrial Resource Centers and KPMG Peat Marwick surveyed DOD contractors across Pennsylvania. The importance which Pennsylvania defense contractors placed on developing international markets as an adjustment strategy was unexpected as to the order of magnitude. Forty-three percent of all respondents and 53.5 percent of manufacturing respondents already were working or anticipated working to develop international markets.

The Pennsylvania Industrial Resource Centers and KPMG Peat Marwick presently are revisiting many of these issues, with a particular focus on the manufacturing sector. The new survey still is in progress, but returns received so far from 280 manufacturing firms across Pennsylvania indicate that 25.0 percent of respondents already have taken action to develop international markets as a defense adjustment strategy, with an additional 27.1 presently working on or anticipating working on this task. The combined weight of responses (52.1 percent) in 1993-1994, then, corresponds to the importance of international market development in 1990-1991 (53.5 percent).

These preliminary survey returns further indicate that approximately two-thirds of defense contractor respondents in Southeastern Pennsylvania presently export to some extent (there was no comparable question in the 1990-1991 survey). With the median exporter employing only 62 persons, this is not the Fortune 500!

There is no clear clustering by product. Many firms produce prosaic items, such as foodstuffs or industrial fittings. On the other hand, 40 percent of the reporting establishments are involved with one or more of 21 "Critical Technologies" as outlined by the Department of Defense. These firms should have the basis for commercial markets-domestic or international—on a competitive basis.

It is a recognition of the strength of the double helix that results when the export promotion efforts are interwoven with a strategy to increase industry competitiveness that established the framework for the composition and focus of the Southeastern Pennsylvania Export Consortium. Added to the mix of organizations that provide export promotion activities are organizations who work with companies to develop and commercialize new products, design and implement innovative production functions, and finance both.

Encouraging innovative products is a major concern in Southeastern Pennsylvania. Several years ago (QIII91), a CoreStates Bank Business Survey showed that among manufacturing respondents in the five counties, 70 percent defined their primary product as "mature/stable," and another 10 percent defined it as "mature/declining." Only 20 percent of firms reported new products with rapidly increasing sales.

With respect to the production function, we seek to encourage and measure innovative firm behaviors. There is "soft" investment in human capital, and "hard" investment in physical capital. The current DOD Contractor Survey, for example, seeks to capture the diffusion of continuing employee training, employee involvement teams, Total Quality Management, and ISO 9000. Among manufacturing firms from Southeastern Pennsylvania that have responded to date, those that export report an average of 1.9 behaviors per firm out of the potential maximum of four. This compares to only 0.5 behavior per firm among non-exporters.

What this all means can be illustrated by the case of the Natco International Division of Atlantic Metals Corporation. Atlantic Metals is a Philadelphia firm, formed in 1939, that manufacturers and exports metallurgical powders used by the steel industry. Over a decade ago, management expressed a desire to enter foreign markets, but was ill-equipped to do so because of an obsolescent product line. The Ben Franklin Technology Center of Southeastern Pennsylvania assisted Atlantic to develop new products. Then the Philadelphia Industrial Development Corporation participated with investments in new machinery and equipment necessary to manufacture the new products. Finally, the Delaware Valley Industrial Resource Center continues to assist Atlantic in several areas, including the implementation of Total Quality Management. Today, they export on an established basis to Canada and Venezuela and are exploring several other South American markets. The point is that traditional export promotion strategies would be of no use if Atlantic Metals had not first reinvented the company with respect to product and process.

We believe this lesson has applicability to the National Export Strategy. "Appendix D" of the Strategy summarizes the purpose of the Trade Promotion Coordinating Council ("TPCC"). As stated, it is "... to provide a framework to develop a strategic plan and to coordinate the government's export promotion and export financing activities." While promotion and financing are important to any generic activity associated with encouraging exports, and while the benefits and leverage that comes from a coordination of efforts should not be minimized—indeed that has been an organizing principle of the Southeastern Pennsylvania Export Consortium—we submit that this approach falls short because it fails to include a third set of issues—those that focus on making U.S. producers World Class competitors.

The National Export Strategy does take a step toward recognition of these issues in its discussion of the role of product standards and certification requirements. But it is indicative that this discussion occurs in a chapter entitled "Regulatory Obstacles to Exports" rather than within a context that describes the contribution such standards can make by stimulating companies to create and upgrade their competitive advantage. It is the addition of this type of perspective that we believe would enhance the National Export Strategy.

One way to help create this perspective is to include those who represent it in the discussions of the Trade Promotion Coordinating Committee. We are encouraged to read, albeit in a footnote to "Appendix D" of the Strategy, that the TPCC anticipates broadening its representation beyond those entities traditionally associated with trade promotion—specifically the Department of Labor, the National Economic Council and the Council of Economic Advisors. We would go a step further, and urge that the Department of Commerce, DOD and SBA, as examples, draw on the experi-



ence of certain of their non-trade directed departments—the National Institute of Standards and Technology, the Small Business Innovation Research Program, and the Advanced Research Products Administration, as they develop input to this group.

Some of this “cross fertilization” is touched upon in the Strategy’s discussion of Environmental Technologies Exports. We would recommend that this interdisciplinary approach be extended to other industrial sectors, and that export promotional activities be tied more closely to strategies for improving the competitiveness of specific industries and industrial clusters.

Finally, we would like to add our voice to those calling for attention to the issue of export finance. The paperwork and time costs involved with government supported finance programs makes them structurally unsuited for the small- and medium-sized business and unattractive to commercial lenders. The National Export Strategy has as a goal, the creation of an . . . “enhanced export financing role for qualified state/local finance entities (including local port and industrial development authorities). . .” We concur with the goal, but would like to comment on the recommendations proposed.

The first recommendation proposes a shared risk arrangement between the Federal Government and qualified state/local export financial entities, but it is silent on what if any, shared rewards would result. Recently, the Pennsylvania Department of Commerce announced a restructuring of its delivery mechanism for certain small business loans in order to increase the role of the local providers and improve loan turnaround. I participated on the task force that addressed this restructuring. The tact we took was to incorporate the revised system both incentives for the local providers to assume greater responsibilities, increasing the rewards for superior performance; and requirements together with the mechanisms, for continued professional training of the local providers. This is a model the NES may want to examine.

The second recommendation proposes that SBA offer “preliminary commitments” to exporters whose loans are packaged by qualified state/local entities. It is not clear to me what the value of this would be to the local network or to the exporter. Perhaps we can go further and examine a model that draws from the preferred lender concept within SBA, and applies this to regional pools of export finance capital formed by public and private interests.

The Export Consortium, as part of its 1994 work plan, is addressing the issue of export finance. We would welcome the opportunity to work with your staff and others at the Federal level to develop mechanisms that will be effective at increasing business access to Federal Government financing.

In conclusion, we applaud the Clinton Administration for directing attention to export promotion. We urge that the mission be broadened beyond one of promoting the U.S. as a country that produces quality products, and incorporate measures to insure that the U.S. is a nation that produces quality products.

Thank you for the opportunity to testify.

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BEN FRANKLIN TECHNOLOGY CENTER OF SOUTHEASTERN PENNSYLVANIA (BFTC), DR. PHILIP A. SINGERMAN, PH.D., PRESIDENT/CEO, MARJORIE HILL, DIRECTOR OF THE BEN FRANKLIN BUSINESS INFORMATION CENTER.

Founded in 1983, the Ben Franklin Technology Center is an independent, non-profit economic development corporation which locally administers Pennsylvania Ben Franklin Partnership Program. Its mission is to promote economic competitiveness, through innovation and technology, by means of partnerships between public, private and, academic communities.

The Ben Franklin Technology Center is the largest source of seed-capital for technology development in the Philadelphia region and a leader in the transfer of technology from universities to early stage companies through financial incentives and other collaborative arrangements. The Technology Center helps fund new product development for small businesses through a variety of equity, loan, and grant programs, including the Innovation Award Program for prototype generation, the Emerging Company Investment Program, the Company University R&D Program, and the Enterprise Growth Fund, and fund dedicated to providing start-up capital to women and minority entrepreneurs. Through its university-based Center of Research Excellence, the Technology Center provides access to world-class facility and facilities and introduces university researchers to the entrepreneurial community.

The Technology Center manages a number of specialized programs that offer unique resources to the entrepreneurial community. These programs include the START Technology Partnership which provides a “window” on the region’s entire



range of university technologies that have commercial potential, the Business Information Center which allows instant access to on-line electronic databases with timely technology, market, industry, and competitive information, and the Small Business Innovation Research Office, which provides access to Federal funding opportunities for small businesses engaged in product research and development. The Technology Center also helps develop regional networks of economic development organizations and educational institutions to support small business incubators, provide export services and offer total quality management training.

The Technology Center is an active supporter of the Regional Strategy for Industry Competitiveness, a collaborative effort of the Delaware Valley Industrial Resource Center, the Philadelphia Industrial Development Corporation, and other regional economic development organizations and utilities.

Dr. Singerman is responsible for promoting regional economic development in the Greater Philadelphia area through the application of science and technology. Singerman has 20 years experience in economic development as a manager, teacher, and analyst. Since 1983 he has served as the CEO of the Technology Center and has been responsible for managing an annual program of \$25 million involving scores of educational, research, and training institutions, and hundreds of companies. Dr. Singerman currently serves on the Advisory Boards of the Drexel University College of Engineering, Genesis Seed Capital Fund, Greater Philadelphia Health Care Congress, Greater Philadelphia International Network, Philadelphia Commercial Development Corporation, Philadelphia-Israel Chamber of Commerce, and the Pennsylvania Biotechnology Association. He was a founding member of the Delaware Valley Industrial Resource Center and a member of the Governor's Task Force on Technology Transfer. Singerman has a B.A. from Oberlin College and an M.A. and Ph.D. from Yale University. He has taught at Yale and Columbia and currently teaches a graduate seminar on "Regional Strategies for Economic Competitiveness" at the University of Pennsylvania Fels Center of Government.

Ms. Hill has an M.S. in Library Science and has had over 12 years experience in database management, program development, and market research with a major accounting firm. With extensive experience in market analysis and data presentation, Ms. Hill is instrumental in providing marketing research data and support to the Consortium.

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BUCKS COUNTY INDUSTRIAL DEVELOPMENT CORPORATION (BCIDC), ROBERT F. CORMACK,  
EXECUTIVE DIRECTOR

Bucks County Industrial Development Corporation is the major industrial development corporation of Bucks County dedicated to the attraction, retention, and support of businesses in the county.

Robert F. Cormack is the Executive Director of the Bucks County Industrial Development Corporation. Coming from the Pocono area in 1989, he brought an integrated and extensive knowledge of economic development, marketing, real estate development, accounting and finance. His experience in financial incentives has resulted in the relocation and expansion of 112 manufacturers thereby creating over 800 new jobs for Bucks County residents.

He is a Director on the boards of the Lower Bucks Chamber of Commerce, the Upper Bucks Chamber of Commerce and Mercy Special Learning Center. He's Vice Chairman of the Middle Bucks Vo-Tech School Advisory Committee, Treasurer of the Penn Southeast Council and a member of the American Economic Development Council, Pennsylvania Economic Development Association. He is active in the Bucks County Vo-Tech Consortium, the Bucks County International Trade Council and the Southeastern Pennsylvania Export Consortium. He resides in Perkasio, Bucks County, with his wife and three children.

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CHESTER COUNTY DEVELOPMENT COUNCIL (CCDC), GARY SMITH, EXECUTIVE DIRECTOR;  
CHESTER COUNTY OFFICE OF ECONOMIC DEVELOPMENT (CCOED), THOMAS V. GALLAGHER, EXECUTIVE DIRECTOR; HOMA TAVANGAR, DIRECTOR CHESTER COUNTY INTERNATIONAL INITIATIVE (CCII)

In operation for nearly 3 years, the Chester County International Initiative (CCII) is dedicated to assisting small- and medium-sized companies to export and to become involved in international trade in general. Until August 1, 1992, CCII was a non-profit organization. After that, the Initiative became "absorbed" by Chester County, and serves as one of the county's economic development arms. Since moving over to the county, however, the organization's functions and focus have not changed.

The Chester County International Initiative promotes exporting through three major means; (1) Via direct, one-on-one assistance to companies. CCII has an active volunteer advisory board representing a variety of expertise that work with companies on a pro-bono basis. Initial screening, assistance, and information is provided from the program manager, and student interns conduct research and assist on general company issues. (2) Via seminars and courses—over the past 2 years CCII has held (or co-sponsored) several very successful seminars. Each of these was sold out.” (3) Via public information through the media and as a general clearinghouse for information on trade-related matters.

In just over 2 years, the International Initiative has served roughly 200 companies and has helped to generate at least \$2 million in direct export sales. It has received numerous commendations from international trade professionals, the media, and foreign trade officials for its pro-active, grassroots trade promotion.

Mr. Gallagher has been Director of the Chester County Office of Economic Development since August 1992. Prior to that he had been President of the Chester County partnership for Economic Development since 1986. Gallagher holds a degree in economics from the University of Connecticut and was a Huebner Fellow at the University of Pennsylvania. He has been active in economic development in both the private and public sectors since 1960. He is President of the Greater Philadelphia Chapter of Lambda Alpha, an international honorary Land Economic Society.

Homa Tavangar has been the Director/Manager of the Chester County International Initiative since November 1991. Under her direction, the International Initiative has assisted roughly 200 area companies on international trade issues, and an estimated \$2 million in direct export sales has been generated. Largely due to the success of the program, she was voted by Business Philadelphia magazine as one of “100 People to Watch: Philly’s Hottest New Leaders” in 1992. In 1993 she was elected to the Philadelphia Committee on Foreign Relations.

Ms. Tavangar comes to Chester County after receiving a Master’s in Public and International Affairs from Princeton University’s Woodrow Wilson School in 1991, and graduated Phi Beta Kappa with a B.A. in Economics/International Area Studies from UCLA in 1988. In 1986–87 she studied at the Catholic University of Peru in Lima. She has worked on international trade and development programs for various consulting firms in the Washington, DC area, for the U.S. Agency for International Development in Nairobi, Kenya, and has worked for the World Bank in its Colombia and Bolivia Country Operations Department. She is fluent in Spanish and Persian, competent in Portuguese, and speaks rudimentary French and Swahili.

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#### DELAWARE COUNTY COMMERCE CENTER, J. PAT KILLIAN, EXECUTIVE DIRECTOR

The Delaware County Commerce Center is the Central economic development agency in Delaware County. The Commerce Center directs the activities of all County development agencies including the Economic Development Board, Redevelopment Authority, Industrial Development Authority, Industrial Development Corporation, Port Corporation, and International Trade Commission.

The mission of the Commerce Center is to oversee and coordinate economic development marketing and financial incentive programs that encourage and facilitate the attraction and retention of business in Delaware County.

In 1991, the county made a commitment to the attraction of international commerce by forming an international trade commission and developing assistance programs for new to export business in the county. In 1993, the county expanded the services available to Delaware County Business interested in export when we became a founding member of the Southeastern Pennsylvania Export Consortium. As part of its expanded program Delaware County, in conjunction with Debra Fox, will be running a series of foreign buyer consultations. These consultations are one-on-one meetings with foreign buyers who will be invited to Southeastern Pennsylvania. During these meetings companies will be counseled on product adaptation, shipping and distribution requirements as well as have the opportunity to sell on the spot. All buyers will be pre-approved.

J. Patrick Killian is the Commerce Director of Delaware County. In that capacity, he is responsible for the overall planning and implementation of economic development policy for the county. Killian also serves as Executive Director of the following: Delaware County Economic Development Oversight Board, Delaware County Industrial Development Authority, the County Redevelopment Authority, the Delaware County Port Corporation, and is Executive Director and Secretary/Treasurer of the Delaware County Industrial Development Corporation.

A recipient of a certificate of recognition from the United States Senate, Killian served for 14 years as Executive Assistant and campaign manager to the late U.S.

Senator John Heinz. Killian managed the Senator's 1988 reelection campaign which resulted in the largest margin of victory in Pennsylvania history. Killian currently serves as Chairman of the County International Trade Commission, as a Board member of the Hero Scholarship Fund and a member of both the Board for Redevelopment of the Philadelphia Navy Yard and the Airport Advisory Committee to the Mayor of Philadelphia. A graduate of the University of Scranton and U.S. Navy veteran, Killian resides in Havertown with his wife, Catherine and their three daughters.

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DELAWARE RIVER PORT AUTHORITY (DRPA), DONALD H. RAINEAR, DIRECTOR, WORLD TRADE & ECONOMIC DEVELOPMENT DIVISION, JOSE F. BRIGOLI, MANAGER PORT MARKET INFORMATION SYSTEMS

The DRPA, in its newly-expanded authority in transportation and economic development in Southeastern Pennsylvania and Southern New Jersey, is engaged in consolidating government-owned docks and terminals into a single operation and in marketing the area's port facilities worldwide. Through its World Trade and Economic Development Division, the DRPA is actively developing import and export business activities that will benefit the area's port community. To this end, the DRPA has been maintaining overseas offices and representatives in such cities as San Paulo, Santiago, Antwerp, Sydney, Seoul, and Hong Kong.

Donald Rainear has been the Director of the World Trade and Economic Development Division of the DRPA since 1991, and oversees Port promotion and the maintenance and increase of shipping on the Delaware River. The DRPA has four U.S. offices and six overseas offices. The Division has an extensive marketing information system which maintains pertinent databases. Mr. Rainear's involvement in economic development includes the development of the Ameriport multimodal yard, a new office building on the Camden waterfront near the Aquarium, an industrial park in South Camden, and contributing to the development of Penns Landing and a retail shopping center in Camden. He is actively developing new trade opportunities in Central and South America as well as in Europe and Asia.

Jose Brigoli has been with the Division of DRPA since 1985, and has occupied the positions of Senior Port and Transportation Systems Planner and Manager of the Port Market Information Systems. He developed user-friendly system of delivering organized information expediently to decision-makers based on large trade databases, he is also active in developing potential export and import activities.

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DELAWARE VALLEY INDUSTRIAL RESOURCE CENTER (DVIRC), ANTHONY J. GIRIFALCO, MANAGER MARKETING COMMUNICATIONS

The DVIRC is a private, non-profit economic development corporation working directly with small and medium-sized manufacturers in Bucks, Chester, Delaware, Montgomery, & Philadelphia Counties to define and execute specific productivity improvement projects which will help firms compete in world markets. As an industrial modernization and extension organization, the DVIRC's mission is to help companies learn about and adopt World Class Manufacturing philosophies and techniques.

Mr. Girifalco assumes multiple roles with the DVIRC, including assisting in the development of programs and services, monitoring and reporting on program development activity, and coordinating and writing funding proposals and progress reports to the Commonwealth. In addition to handling the marketing, communications, and public relations functions of the DVIRC, Mr. Girifalco helps develop and deliver DVIRC seminars, facilitates several of the DVIRC's group initiatives, and works closely with other regional business, educational, and economic development organizations. Girifalco also works with companies on strategic planning, marketing, and export-related issues such as ISO 9000. Girifalco has significant experience in academics, business, and State government. He formerly served with the New Jersey Department of Corrections as a project specialist and was a teaching fellow at the University of Pennsylvania. He also was president of Information Research Institute, Inc., a database publishing company which he co-founded. Girifalco holds a B.A. in literature from the University of Pennsylvania and an M.A. degree in literature from Georgetown University.



GREATER PHILADELPHIA CHAMBER OF COMMERCE (GPCC), JAMES MCMANUS, SENIOR  
VICE PRESIDENT

The Greater Philadelphia Chamber of Commerce (GPCC) represents the business interests of approximately 5,700 members in Southeastern Pennsylvania. The Chamber serves as an advocate of the business interests of our members through several important areas. Specifically, the Chamber serves as the voice for the business community in influencing government action at the local, state, and national levels. The Chamber advocates the needs of its members in the legislative and administrative arenas. In addition, the Chamber offers an array of business networking events throughout the year where business owners and executives meet together to exchange information on products and services which they produce. Also, there is an active educational program which offers seminars and workshops on a variety of business management topics and produces a series of approximately 135 educational programs throughout the year. The Chamber also provides management and administrative support for a number of independent councils involved in such diverse areas as total quality management, venture capital development, business promotion of the arts, and health care policy and cost containment.

In the international area, the Chamber offers a series of targeted workshops aimed at increasing the export sales activity of its members. For example, the Chamber recently produced a program attended by 75 businesses which provided a basic outline on export financing as well as required export documentation. A similar program is planned in early 1994. In addition, the Chamber plans in international exposition in the spring of 1994 which will include sales and display booths by area firms active in international sales and service activity who wish to use the expo as a forum for prospect introductions. The Chamber also manages the Chilean American Chamber of Commerce and the British American Chamber of Commerce and provides office space for the Philadelphia/Israel Chamber of Commerce. All three international chambers are focused on producing forums and networking events in order to increase trade activity between the Philadelphia region and their respective countries. Finally, the Chamber serves as an authorized signatory of Certificates of Origin for products being shipped through the water and airports of Philadelphia.

James McManus, Senior Vice President for Programs, serves as the member of the Chamber Executive staff with management responsibility for its international activities. Mr. McManus has been a member of the Chamber staff since September 1989. Prior to joining the Chamber, he spent approximately 13½ years with the Philadelphia Industrial Development Corporation in a variety of assignments which included that management of the agency's international business activity. Mr. McManus is the Immediate past president of the Pennsylvania Economic Development Association and is a member of the Board of the Philadelphia Industrial Development Corporation, Philadelphia Commercial Development Corporation, Delaware Valley Industrial Resource Center, and the Ben Franklin Technology Center of Southeastern Pennsylvania. Mr. McManus holds a bachelor's degree from LaSalle University and a Masters of Business Administration degree from Drexel University.

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GREATER PHILADELPHIA INTERNATIONAL NETWORK (GPIN), FRED DEDRICK MANAGING  
DIRECTOR, CLAIRE DESALLA, DIRECTOR OF INTERNATIONAL TRADE

The Greater Philadelphia International Network (GPIN) is a private non-profit economic development organization sponsored by the Philadelphia business community. Its mission is to promote trade and investment and to assure a strong, well recognized position for Greater Philadelphia in a rapidly developing international economy and global society. As part of its mission GPIN, in conjunction with Debra Fox, will be offering the Competitive Intelligence Audit Program. These Audits are business intelligence reports for small business. The Competitive Intelligence Audit Reports will detail foreign competitors in selected markets, price points, market share, and foreign market trends for a particular industry.

Fred Dedrick has been the Managing Director of GPIN since 1988. He was previously Deputy Director for 2 years. He was the principal designer of GPIN's export assistance program called REAP (Regional Export Assistance Project). Mr. Dedrick graduated from the University of Notre Dame in 1970 with a B.A. in English and in 1986 received a Masters degree in International Affairs from the Woodrow Wilson School of Princeton University. Mr. Dedrick currently serves on the Board of Directors of GPIN, the German-American Business Association of Philadelphia, the British-American Chamber of Commerce and the Mexican-American Business Alliance



of Pennsylvania, New Jersey and Delaware. He is also a member of the Philadelphia Committee on Foreign Relations and the New York Council on Foreign Relations.

Claire Desalla directs the GPIN's REAP program which, in its first year, has provided assistance to more than 150 companies. Ms. Desalla has personally met with over 75 companies in this period and 17 of these companies are now contracting with GPIN for export assistance. Ms. Desalla was formally the International Trade Specialist with the State of Delaware's Development Office, which in 1989 received the President's "E" Award for excellence in exporter assistance. She has extensive experience counseling and training small and medium sized companies which are seeking to expand their overseas sales. She has a Masters degree in Public Administration from the University of Delaware and a B.A. in Spanish from the same University.

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MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT CORPORATION (MCIDC), CARMEN ITALIA, PRESIDENT

The Montgomery County Industrial Development Corporation is a private non-profit organization and was incorporated in 1964. The goal of the Corporation is the retention and attraction of business and industry to Montgomery County. Over the years, MCIDC has financed well over 1,100 projects throughout the County which resulted in the creation and retention of thousands of jobs. It can be said that MCIDC is always look for new and better ways to do business. In 1983, it established the Suburban Development Council for the administration of a direct loan program for small manufacturers in Montgomery County. In today's global economy, MCIDC has realized that International Business is vital to the health of Montgomery County and is taking steps to provide the necessary services to the businesses of Montgomery County. Montgomery County, in conjunction with Debra Fox, is offering the Target Japan Program. This is a customized service providing export assistance in penetrating the Japanese Market. Companies will be helped to find information on distributors, end users and competitors. This service also includes information on how to adapt products for this unique market.

Carmen S. Italia, Jr., President of MCIDC and Executive Director of SDC has been actively involved in various aspects of economic development for the past 20 years. He has held positions with the State Department of Commerce; leased and managed a 200 acre, 1.5 million square foot industrial/office park; worked for the Area Development Department of PECO and is a licensed real estate agent in the Commonwealth of PA. Currently, he is actively involved with several committees of the newly chartered Tri-State Commercial and Industrial Real Estate Board as well as several local community economic development efforts throughout Montgomery County and the region.

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PHILADELPHIA INDUSTRIAL DEVELOPMENT CORPORATION (PIDC), ROSEANN ROSENTHAL, SENIOR VICE PRESIDENT; RAYMOND DEVLIN, MANAGER OF PROGRAM DEVELOPMENT

PIDC has a 35 year track record in the field of economic development. One of the Nation's first examples of a public/private partnership, it continues to be a national model for economic development organizations. Its reputation for leadership in the field and its ability to develop and execute a wide array of economic development projects and programs has been documented both within trade and government journals and recognized through awards it has been granted over the years. PIDC has managed international activities on behalf of the City of Philadelphia for the past 10 years. During this time, Philadelphia was singled out as the only municipality to host the Japan External Trade Organization (JETRO) program which was housed at PIDC, and serves as the regional organization for Export Import (EXPORT/IMPORT) Bank financing.

Ms. Rosenthal has 25 years experience in economic development, the last 15 of these with PIDC. She has been instrumental in the development and implementation of innovative programs and strategies that have addressed a wide range of economic development issues, and has served on local, state, and Federal task forces to provide programmatic and policy advice. Ms. Rosenthal has also been responsible for the development and management of PIDC's Export programs. As fund manager of the PIDC Venture Fund, she has served on Boards of Directors of several small- and medium-sized private companies. Rosenthal is currently a Board Member of the National Council for Urban Economic Development (CUED) and a member of the Executive Committee and Board of Directors of the Delaware Valley Industrial Resource Center (DVIRC). She is a member and past Director of the Forum of Executive Women.

Mr Devlin has 15 years of professional public service, and private consulting, experience in the various aspects of the community and economic development processes in Pennsylvania, Oregon, Maryland, Virginia and Delaware from the local, regional, and state-wide perspectives. Mr. Devlin also has considerable related experience in program development and project management on a wide variety of public policy and private initiatives and projects.

Mr. Devlin holds a bachelors degree in Political Science from LaSalle University, a Master of Urban Studies from Temple University, and a Master of Business Administration from Marymount University. Mr. Devlin also has international professional experience in Europe, Africa, and Asia. Mr. Devlin is also conversant in French and Swahili.

PHILADELPHIA REGIONAL PORT AUTHORITY (PRPA), ELIZABETH MURPHY, DIRECTOR OF STRATEGIC PLANNING & DEVELOPMENT, JOHN DUNHAM, STRATEGIC PLANNING ANALYST

The Philadelphia Regional Port Authority, an independent authority of the Commonwealth of Pennsylvania, has as its primary mission the enhancement of waterborne trade and commerce. As an organization committed to economic development and job creation, the Authority seeks to meet the needs of its customers by providing appropriate and efficient maritime facilities, equipment, and support services. Created with the financial backing of the State government, PRPA intends to generate activity that will maximize port-related employment and revenue by promoting the use of the Philadelphia regional port system by Pennsylvania-based industries. PRPA is committed to working in a cooperative spirit with other Delaware River port agencies to realize the full potential of the regional port system.

Ms. Murphy's responsibilities include overseeing the development of a plan for the future port's facilities. In addition, she manages the development of projects aimed at generating additional cargo at the port. A few of these projects relating to increasing Pennsylvania exports through the port include the Inland Cargo Yard in Lancaster, the Pennsylvania Export Initiative, and Foreign Trade Zone development in Southeastern Pennsylvania.

Mr. Dunham is responsible for market research, transportation and logistics research, and economic analysis. Dunham is a professional economist with an M.A. in Economics from the New York School for Social Research, and logistics training from New York University. He has been involved for the past 7 years in both the transportation and public finance industries, including work for both the New York City Mayor's Office and City Comptroller.

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#### CONSORTIUM CONSULTANTS, DEBRA FOX

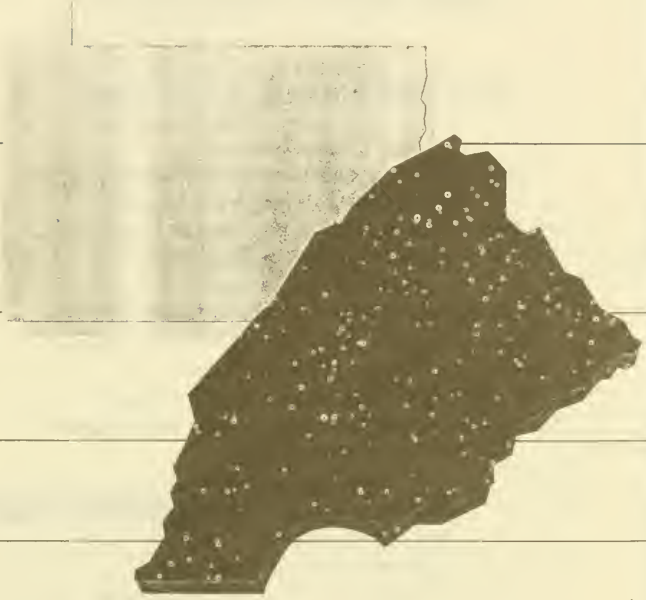
Prior to providing export related consulting to the Southeastern Pennsylvania Export Consortium, Ms. Fox was most recently employed with the Philadelphia Industrial Development Corporation as its Manager of the International Division. While performing her duties as the Manager of the International Division, Ms. Fox was intimately involved in the initial development of the Consortium. As a consultant to the Consortium she will be providing consulting services to the Delaware County Commerce Center for the Foreign Buyer Program, she will also be providing consulting services to the Montgomery County Industrial Development Corporation for the Target Japan Program and, she will be providing consulting services to the Grater Philadelphia International Network for the Competitive Intelligence Audit Program.

Ms. Fox was with PIDC for over 10 years. Her first position was as a Research Analyst for the International Division where she developed investment packages for potential foreign investors. In 1985, she was made responsible for all trade and investment activities between the City of Philadelphia and the Far East. These activities included leading trade missions, organizing trade shows, and running investment seminars. In 1987 Ms. Fox became Manager of the International Division of PIDC. In this position, Ms. Fox was responsible for coordinating with the Commonwealth of Pennsylvania on the delivery of the EXIM Bank City-State Program, and was also instrumental in positioning the City of Philadelphia as one of 15 U.S. locations to be used as a pilot for the Japanese government's Senior Trade Advisor Program which helps U.S. companies break into the Japanese market. The PIDC International program has directly assisted over 400 companies over the last several years to develop new export markets.

Recently, Ms. Fox was one of 100 American trade development professionals invited to attend a symposium to establish a set of recommendations for the Trade Promotion Coordinating Committee (TPCC) as they began to formulate the Nations's first export strategy.

GREATER PHILADELPHIA  
IN THE 21ST CENTURY

*A Regional Strategy  
for Industry  
Competitiveness*



PHASE I

## COORDINATING ORGANIZATIONS

Ben Franklin Technology Center of Southeastern Pennsylvania  
 Delaware Valley Industrial Resource Center  
 Philadelphia Industrial Development Corporation

## SUPPORTING ORGANIZATIONS

Bell Atlantic  
 Bucks County Industrial Development Corporation  
 Chester County Development Council  
 Chester County Office of Economic Development  
 Delaware County Commerce Center  
 Delaware River Port Authority  
 Greater Philadelphia Chamber of Commerce  
 Greater Philadelphia Economic Development Coalition  
 Greater Philadelphia First  
 Greater Philadelphia International Network  
 Montgomery County Industrial Development Corporation  
 PECO Energy  
 Philadelphia Gas Works  
 Philadelphia Regional Port Authority  
 Philadelphia Suburban Water Co.  
 Philadelphia Water Department  
 Technology Council of Greater Philadelphia  
 University City Science Center



***This document summarizes the vision and objectives of a unique partnership of our region's utilities and economic development organizations. Members of the partnership have worked over the past year to develop a focused long-term strategy to improve the competitiveness of industry, which is presented in this document. The completion of this document marks the completion of Phase I of an ongoing process and paves the way for the beginning of Phase II—refining and activating the work plan. With a comprehensive assessment of the issues critical to improving industry competitiveness in the region completed, the participating organizations are prepared to focus on the specific initiatives that will improve the region's competitive position in Phase II.***

If the Greater Philadelphia region is to compete successfully with the rest of the world, it must assemble its substantial and diverse assets, focus its energy and resources on competitiveness issues, develop and embrace a regional culture of cooperation, and establish a dynamic and coherent vision for the future.

The dramatic world changes that have occurred over the past five to ten years have altered the geopolitical map and intensified the global economic battle for competitive position. Technological advances, a new focus on human resources and education, innovative methods of financing, and extraordinary changes in the world's industrial skeleton, all suggest that the

competition will intensify even more as we approach the 21st century.

It has become increasingly clear that our national economic strength will depend upon the strength of our regional economies.

Realizing this trend, several organizations in the Greater Philadelphia area have come together in a new spirit of collaboration to help shape and define the competitive position of the region. We are now seeking broad-based support for the development and execution of an agenda for action.

The first step in this process has been to establish a vision: ***to create an internationally competitive regional economy that is growing faster than the nation in the 21st century.***

we should not lose sight of the continuing need to:

- *integrate the demands of technological innovation in the plant with both worker needs and employer requirements;*
- *provide consulting services for in-plant productivity improvements, such as new computer systems, technology upgrades, and the adoption of Computer-Aided Design and Manufacturing (CAD/CAM);*
- *help firms implement environmental safeguards to meet the requirements of the changing regulatory arena; and*
- *create an atmosphere conducive to the establishment of business partnerships and the development of flexible manufacturing networks among small and medium-sized firms.*

By integrating the resources of the economic development community with those of educational institutions, business and civic organizations, and local manufacturers, the region's leaders can step forward to sharpen their focus on industry, and together develop unprecedented solutions to some of the problems of our industrial base—the underdeveloped financial, technology, and human capital infrastructures that support it.



In an economy increasingly dependent upon technological innovation, the need to incorporate technology-related issues into a long-range strategy is more important than ever. Generally, the region's *technology infrastructure* includes:

- *educational institutions that provide technology-related training, support, research, and development;*
- *the ability to transfer and commercialize new technologies;*
- *the ability to attract federal and other grant money to support technology-based R&D;*
- *the adoption and installation of new manufacturing process technologies;*
- *telecommunications networks to support the imminent increase in on-line communications; and*
- *an increasing number of "high tech" manufacturing firms.*

Our existing *technology infrastructure* is considerable and its elements have helped to make Greater Philadelphia a region nationally known for its technology base. Among some of the specific foundation elements are:

- *89 accredited colleges producing 48,000 graduates per year, including 40% in science, medicine and health, engineering, and computers;*
- *a higher per capita ratio of scientists than New York, Chicago, or Los Angeles;*
- *41 advanced research institutions with grants totaling \$192.4 million; and*
- *large and flourishing pharmaceutical, biotechnology, and instrumentation industries.*

In order to stimulate the further development and commercialization of new technologies (both to support existing industries and create new ones), the region's technology community can build upon the existing technology resources by:

- *encouraging firms to explore collaborative relationships with both the*



*academic world and with other businesses;*

- *helping manufacturers adopt productivity-enhancing processes, machinery, and equipment; and*
- *creating a climate which supports technology-based ventures.*

Future economic viability will depend on how successfully we are able to productively manage technological change. Our ability to manage that change will depend on our ability to harness the creative energy of the region's technology champions.

We need a coordinated effort to lend further support to the development of several important projects, such as:

- *the START Technology Partnership—an academic, business, finance, and economic development consortium focused on the rapid commercialization of new university technologies;*
- *the Pennsylvania Biotechnology Institute—an industry-driven research facility dedicated to advancing biomedical research;*
- *Electronic Data Interchange (EDI)—a computer and telecommunications network among regional economic development organizations and manufacturers; and*
- *the Center for Information and Communications at the Ben Franklin Technology Center—providing on-line database access for small and medium-sized companies.*

Industry-led partnerships with research centers should be championed by civic, business, and economic development leaders to increase the volume and level of technology transfer. We should also seek opportunities

to work with local utilities on issues such as energy conservation for industry and the establishment of a regional telecommunications network second to none.

If the goal is to have the region recognized as a worldwide high technology industrial center, which would include creating permanent high-paying manufacturing jobs, we must act now to develop and execute the initiatives needed to strengthen this pivotal infrastructure.



Regional economic growth is heavily dependent upon the availability of a workforce with skills that match the needs of industry. With the acceleration of global commerce, the adoption of more sophisticated technologies, and the growing acceptance of Total Quality Management, the importance of flexible and talented labor is more critical than ever.

The region's *human capital infrastructure* includes the existing and potential workforce, educational institutions, training programs, and the financing and coordinating mechanisms that train and develop skilled workers and match them with jobs.

There are many reasons for a thoroughly integrated approach to developing our regional *human capital infrastructure*:

- *In Greater Philadelphia, manufacturing accounted for 30% of employment in 1970 compared with 15% in 1990;*
- *Regional job opportunities are missed by Philadelphia's labor pool due to inadequate transportation; and*
- *The changing requirements of work have placed a greater demand on employers, workers, and educators.*



In short, the new high-paying jobs of industry must be filled by workers with greater proficiencies in basic English, math, communications, problem-solving, and technical skills.

Even though the region's educational infrastructure is one of the most prominent in the nation, a mismatch between jobs and workers could threaten economic growth. If we do not prepare our workforce, cutbacks in Pentagon spending, downsizing of large corporations, and the increased numbers of unskilled entry-level workers could all serve to institutionalize rather than alleviate some of the problems.

If we are to become a region where the needs of the workforce and the requirements of the job market are optimized, then we must coordinate our resources to:

- *Maximize the impact of state and federal job training programs;*
  - *Work with the area's community colleges and other educational institutions to develop and implement training and education programs that satisfy the new needs of industrial employers;*
  - *Obtain increased funding for job training programs, for customized training, for re-training displaced workers, and for upgrading the skills of existing workers;*
  - *Further develop and promote apprenticeship and intern programs through business/education partnerships; and*
  - *Support vocational education as an attractive and viable option for students.*
- Several initiatives, some of which begin to address these needs, have begun already:
- *PA Youth Apprenticeship Program—a "work-based" initiative where students complete their high school studies and work under an employer-mentor;*
  - *Job Link—a cooperative effort linking people with job opportunities throughout the region; and*
  - *Drexel University Degree in Manufacturing Engineering—designed to increase the participation of women and minorities in engineering.*

The challenges ahead, like the relationship between the regional labor force and available employment opportunities, are complex and difficult. They require addressing a host of issues involving education, training, housing, transportation, and economic development policy. They also require strong leadership and an unprecedented commitment and redirection of financial and technical resources.

Broadly, the region's *financial capital infrastructure* includes:

- *Local, state and federal financing programs offered through the Industrial Development Corporations and Authorities of each county;*
- *Financing programs available through regional economic development organizations such as the Ben Franklin Technology Center of Southeastern Pennsylvania and the Delaware Valley Industrial Resource Center;*
- *Private lenders, such as banks and venture capital funds; and*
- *Corporate trusts and other non-profit funding organizations.*



It is no secret that, despite existing public and private resources, area businesses continue to come up short in their search for capital. The creation of a venture capital industry in Greater Philadelphia is a signal accomplishment of the 1980s, but the 1990s are presenting new challenges.

Financing gaps continue to exist and are accentuated by:

- *a decrease in the sources of risk capital;*
- *a credit environment that has tightened the availability of conventionally-sourced debt;*
- *discontinuation of some and increasing regulation of other government-sourced financing tools; and*
- *the impact of the increasing role of pension funds—the nation's single largest source of capital, but one driven by a singular role of safety of funds.*

The recessionary effects of the economy have eroded the asset base of many area firms just when businesses need to become aggressive if they are to compete internationally. Flexible, accessible, patient capital is needed to support a transition or growth strategy. The response must be multi-faceted and must:

- *create financing mechanisms that address market gaps;*
- *provide access to capital that, to date, has been largely unavailable for "development investing";*
- *work for regulatory relief of existing capital providers; and*
- *reposition public dollars and redefine the requirements for their use.*

The need to fully develop creative, long- and short-term financing mechanisms for a broad

variety of business needs is urgent. Among the initiatives underway are:

***Penn Southeast Regional Bond Program—***  
*a joint program of nine counties in Southeast Pennsylvania, led by PIDC, to provide access to private capital markets to finance existing, expanding businesses;*

■ ***the Industrial Growth Initiative—***  
*a proposed capital pool that offers an alternative for corporate investment activities through geographically targeted, moderate-risk development investments in growing companies; and*

■ ***the City-State Exim Bank Program—***  
*a regional effort to provide export financing to businesses.*

In addition, programs are already in place to finance new product development, ISO 9000 requirements, and manufacturing process improvements.

Money alone is not a solution; but without adequate capital to support the changing economy of the Greater Philadelphia region, and without a willingness to develop innovative financing options for small and medium-sized firms, economic growth may stagnate, making it even more difficult for the region to obtain the competitive edge it needs to survive and prosper.

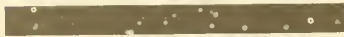
Finally, any vision needs people to develop an action plan and execute its work elements. We believe that the talent and resources exist in the region's many institutions, and that



additional organizations will recognize the challenge, be willing to think about the regional economy in a new way, and focus a share of existing resources to accomplish defined goals.

The degree to which we are now cooperating is testimony to the nascent vitality of an *institutional infrastructure*. The organizations listed in this document have joined together to begin the work of implementing this strategy. Some achievements include:

- *Positioning the region and its issues in state and national forums, both to work for change and to leverage additional resources into the area;*
- *Forming the Regional Economic Research Institute, and beginning its work on developing alternative ways to measure regional economic growth beyond job creation;*
- *Obtaining the area's first regional grant from the Commonwealth of Pennsylvania to conduct economic development research and support the work of an emerging Export Consortium; and*
- *Forming the Utility-Economic Development Partnership that meets on a regular basis and is implementing a work plan, including: cross-training of staff; production of a joint marketing brochure; planning and implementation of EDI among partnership members; and the production of this document.*



The challenges to seizing the reins of change are staggering, but the opportunities for growth

and prosperity are equally vast. We believe that it is time for business and government, education and economic development, management and labor, city and suburbs, and private and public sectors to set aside differences, build upon common interests, and prepare to travel a long road toward re-building the region.

We have much to learn from each other and even more to gain. By working together we can catapult the region into the top ranks of international competitiveness. But we must do it together. And by re-focusing some of our existing resources on the competitiveness of industry, we can strengthen the all-important infrastructures that support industry. It is time for the region's leaders to step forward—in finance, in education and workforce development, in technology, in business and industry, in government and economic development. In every sphere that impacts our ability to compete, it is time for us to step up and aggressively shape the economic destiny of the region.

If you would like to help realize our vision for Greater Philadelphia—***to create an internationally competitive regional economy that is growing faster than the nation in the 21st century***—please endorse and support this strategy.

This vision can only become a reality through the efforts of companies, institutions, and organizations throughout the region, through their willingness to commit time and/or resources, through their articulation of the specific work elements of the strategy, and through their desire to change the Greater Philadelphia business environment from one of post-industrial survival to one of unprecedented regional economic strength.

The CHAIRMAN. We'll work closely as we develop the strategy for making them better. Our first three panel members were fairly small businesses, some very small. Do the programs you're talking about help the very small businesses enough? They didn't seem to know about many of these programs that you've just been describing.

Mr. MONTGOMERY. I certainly want to let them know and let many, many others know about our programs. Our programs are designed specifically for the small- to medium-sized business and are not frankly designed for ALCOA and Hershey Foods and businesses of that size.

The CHAIRMAN. But there's two ends of the spectrum. And for the businesses with 6, 15, 50 employees—

Ms. SIFER. I do not believe that the very small companies are fully aware of what's available at the local, State or government level, particularly some of the financing programs. The programs are also very complex. I think if you're a new exporting customer I think they need someone to be able to hold their hand through the process the first time. I think hopefully with the establishment of these regional offices some of these customers will have one focal point where they can go and receive some of that assistance or through the banking community.

I do want to make one comment, we quite frequently see as a bank, and I failed to mention, I think that there is a need for some type of support from the government. And that is we frequently hear from companies that are more of a trading company in nature where they see opportunities overseas.

The Eximbank programs do not support that type of activity nor do commercial banks, because these companies really don't have the capital. They're looking for someone to put the capital up for them. I think there's a need to look at some type of venture capital from the private sector or from the government for this type of activity. We quite frequently hear that that kind of activity is non-existent.

The CHAIRMAN. I think I have to press the point that Mame brought up first, that in her experience, she put it starkly, banks are aggressively trying to avoid. I don't want to state your proposition falsely, but aggressively trying to avoid financing of exports.

I'd like all four of you to comment on why that is so. Kathleen has already said that you got badly burned for your loans in the less developed countries. Have you recovered from that?

Ms. SIFER. That's correct. I think Mellon Bank has recovered as have many of the banks in the United States. Banks were hit by the LDC debt crisis at the same time they were hit with the real estate lending crisis here in the United States. But I think the one area even in Mellon's experience where we continued to operate internationally was on the trade finance side.

My bank as an example handles on average just on a letter of credit side a \$100 million of export LCs on a monthly basis. The average size of these LCs is \$50,000. We also handle large transactions in the multi-million dollar range for large corporations. If the average transaction size is only 50 that says we're supporting a lot of small value exports.



I think that we are interested where we can accept the risk. If we can not accept the risk we have to look for the U.S. Government programs to be able to assist us with providing certain guarantees. We do have to deal with the regulators and high-risk countries that require reserves be established by the banks who conduct lending activities to those markets.

Mr. MONTGOMERY. Our experience, Senator Wofford, has been that banks like Mellon have been somewhat atypical on this issue. They have worked very aggressively with regard to small businesses, but the banks at the large spectrum haven't been working as aggressively. Perhaps it's because of the classic theory within banking that the administrative work to do a small loan is similar to the administrative work to do a large loan and the return on that investment is on the margin.

But we think that with examples from truly the competitive edge of a Mellon Bank, and I've worked closely with Chip Thomas, here in the east as well, with the Mellon Bank and several others showing that there is a market there and with the appropriate blend of the Federal guarantees such as Eximbank and others that other banks just from a competitive nature will say, I think I need to get into the ball game here.

The letter that I personally sent to the 200 bank CEOs introducing our work as a city-state Eximbank intermediary gave examples, not specific to name but other banks in Pennsylvania are with this and let's work with it. And RoseAnn from PIDC has been a partner of mine on this for years.

Ms. ROSENTHAL. In our experience with it today, we're beginning to see a willingness from the banks to talk about forming a different model involving a consortium, a collaboration of banks. I think they are still unwilling to go it alone for the small transactions. But we began discussions with a few of the banks in Philadelphia earlier this year to see what we could do to develop a model that either increase the use of some of the federal mechanisms that are out there, replicates them at the regional level, with less red tape, or does something else to free up capital in a way that gives banks a sense of security that they're not out there alone.

So, I think that's a real issue. I think the costs of the transactions are probably the single issue that we hear again and again as the greatest road block.

The CHAIRMAN. Mame, do you want to stress your point?

Ms. BRADLEY. Well, maybe just to clarify it a little bit. The evidence that I have is, of course, only anecdotal. So, I can only report from what I've heard talking to members of the World Trade Center in Pittsburgh or other clients and from talking to bankers as well.

I agree that the issue of the cost of the transactions comes up frequently. So does the history of loans during the 1980s, that cost the banks a lot of money. The third issue that Kathleen raised and I think is a good issue is the question of whether or not a borrower is creditworthy to begin with.

But sometimes, and again, I don't have data to support what I'm saying, but I think sometimes that a company that's involved in international trade, especially a small- or medium-sized company,

when they talk to their bank about export trade finance they're frequently tarred with the same brush as the poor credit risk who probably shouldn't be seeking bank finance at all.

We've had a number of meetings in Pittsburgh about this issue. I really think that we've all raised the issue to one degree or another. It's a very technical field obviously from listening to Kathleen talk, but I think that it might be a good topic for a similar forum like this to deal only with trade finance issues.

The CHAIRMAN. Is there anything that any of you want to add to what you've already suggested and what the Federal Government and Congress should do, on this last point, to encourage cooperation among banks to move more aggressively and more affirmatively in this area?

Ms. SIFER. I strongly want to re-emphasize the issue that the reduction in the guarantee coverage and Working Capital Guarantee program is going to have the opposite impact, because banks wouldn't be seeking an Eximbank guarantee for a customer if they were a stand-alone creditworthy entity. If they are, the Bank would be doing the financing on its own. If Eximbank reduces the guarantee, equalizes it or harmonizes it, I think it will have an impact on the use of the Working Capital Guarantee program.

Neither the SBA program or the Eximbank programs have been overwhelmingly successful. Both of them have had some limited success.

Mr. MONTGOMERY. I'd like to add to that. Even though a 90 percent guarantee to the average listener sounds great, when you're in the business of finance and you're working on the margin that may not be as attractive, so I had to add to Kathleen's point, of how out in the market place that is going to be affected in a negative fashion.

Ms. SIFER. A margin on this transaction with an Eximbank guarantee would be half of a percentage point.

Ms. ROSENTHAL. I think there may also be another incentive that was mentioned in the Export Strategy proposal. And that's enabling all of these loans to be eligible for CRA credit. I think that might generate demand as well.

The CHAIRMAN. You have spoken very highly of the work of the Eximbank, and Ken Brody needs to hear it.

Ms. SIFER. Yes. We think very highly of Mr. Brody. As a matter of fact the problem that he helped us with was an issue where business was being sent to a large money center bank. We are in the business of assisting small- to mid-size companies. And if the Eximbank guarantee program wasn't available for us, fewer banks will be able to support trade finance.

The CHAIRMAN. I'll make sure that he knows about your testimony today. What about the Small Business Administration? We have an outstanding new Administrator. Do you have any more specific advice for him?

Mr. MONTGOMERY. I think my advice to the SBA would be to streamline, streamline, streamline and get the deal done in a more effective and efficient fashion. They have many of the products but some of the products need to be adjusted a bit. But we think that there's some good sense of new direction at the SBA.

The CHAIRMAN. I talked to Administrator Bowles earlier this morning on a streamline point as a matter of fact.

Ms. ROSENTHAL. I think one thing SBA might want to take a look at is extending the concept of the preferred lender. Within the National Export Strategy there's a discussion of an increased role for entities like local industrial development corporations in terms of their financing role. To date the preferred lender concept has been applicable only to private banks. I wonder whether extending this capability to other public/private financing entities that have experience and who are certified, for instance, by State governments, might not be an effective way for SBA to get their financing out on the street.

Mr. MONTGOMERY. I think obviously RoseAnn comes from PIDC and is thinking perhaps of her organization. But let me take that a step further and kind of echo what she said. If the SBA were to look at the preferred lending status for some of the very good industrial development authorities such as hers, I think that would move a lot of business forward.

The CHAIRMAN. Mame said you're the designated—what is the designation?

Ms. BRADLEY. Maybe Mike can help me out. The World Trade Center and the other members of this unincorporated consortium, we're the western counterpart.

The CHAIRMAN. That's what I wanted to know.

And you're the southeastern. And designated as what?

Mr. MONTGOMERY. They are designated as the Pennsylvania Export Partnership Regional Provider of Export Technical Assistance. Through our Department of Commerce we provide them with some underwriting dollars to add to what they already perhaps have as they are right there on the ground floor working with companies, looking at the southeastern and the southwestern part of the State. We felt as though the idea of a consortium was absolutely marvelous as opposed to only one agency or only one authority being the point guard. We're just as pleased as I don't know what with both the southeast and southwest.

The CHAIRMAN. Do you have other entities in the State?

Mr. MONTGOMERY. Yes, we have eight other entities throughout the State from Erie to the Lehigh Valley to Southcentral Pennsylvania to the northern tier that also work with the business community and provide this kind of export assistance to them. And they work in partnership with our department.

Then individually each of the entities within the consortium may work closely with us on any given point. Mame Bradley the head of the World Trade Center in Pittsburgh invited me to be on a panel to discuss our programs when a delegation from Taiwan was in town several months ago. That was a great opportunity for us to be there. They came because of her World Trade Center and as a result we have companies who are doing business with the government as well as businesses in Taiwan, specifically I think in the area of environmental controls. That was the focus there.

The CHAIRMAN. Do you know how many small businesses there are in Pennsylvania? Do you have some figures?

Mr. MONTGOMERY. I was about to say 38,000 to 40,000 or so designated as small businesses. Not all, of course, would fit into this



category, because there's also Joe Smith's fruit stand in a local neighborhood. But I think the number is pretty high.

The CHAIRMAN. The main thing I'm interested in is the number of businesses in Pennsylvania that could be exporting, that could be making progress that way, could be producing these extra jobs through expansion and exports who don't know about the programs that you've just talked about.

Mr. MONTGOMERY. I'm sorry I don't have that number off the top of my head, but I'll get that word to your office.

The CHAIRMAN. It isn't exactly a number.

I'm sure that there must be many, many small businesses in this State that would benefit by knowing—by being here today. What is the communication process to them in the State? Are these designated consortiums primarily responsible for getting the word out or is that the Department of Commerce and the Department of Agriculture?

Mr. MONTGOMERY. A combination. The consortium approach is certainly one. We also work from a data base of companies that are designated by SIC code in the Commonwealth of Pennsylvania by product distribution possibilities, let's call it, and have major mailings to those SIC code companies when we know of a trade event that hits their area. The furniture manufacturing businesses in Pennsylvania just as an example would get information about our programs. And we have to I think to even further follow up with those companies to let them know.

The CHAIRMAN. You have to make a flight. Thank you very much.

Ms. ROSENTHAL. One of the strategies, within the Consortium and within a number of groups that are organized similarly to the way we are, driven by scarce resources and, therefore, the inability to get the word out to as many companies as we think need to hear it, is to pool our efforts and to create joint mailers, joint brochures that are given to staff in each of the organizations, in each of the utilities so that when they're calling on a client they have information to distribute. They don't necessarily have to be conservant with the information, but they are able to leave the information. We found it possible, in effect, to multiply our own staffs in this way. Also, when a client wants services from our consortium, he or she can call any of the agencies and will be immediately networked to the rest of them. One of the issues that pulled us together was we each found it impossible to reach the number of clients that we want to reach on our own, because there simply aren't enough administrative resources and dollars to do that.

I think another sector we need to be aware of in terms of its potential for generating exports, one that we're pursuing as a result of a survey done together with the DUIRC and other industrial resource centers who were funded by the Pennsylvania Department of Commerce is the defense sector, which is very critical to South-east Pennsylvania. In a resurvey of those companies, currently underway, indications are that approximately 50 percent of those who responded, so far, have identified exporting as a way for them to address defense conversion issues. Of that 50 percent, 25 percent have already begun to export. So, we need to work with that sector which is a little bit more specialized, as well.



The CHAIRMAN. I'd like to see that survey.

Mr. MONTGOMERY. Very quickly, Senator, our relationship with the Department of Commerce and with the Pennsylvania Chamber of Business and Industry has allowed us to combine our efforts to publish a Directory of Export and International Trade Services and details about how companies may be alerted to our programs. There's a major distribution of that particular directory and a company similar to the one represented by Mr. Sevon from Manguier Marketing might be in contact with us if his company is not listed in the brochure, then as it gets updated then we can make certain that he's there so that companies can know about his marketing services.

The CHAIRMAN. Well, way back in my life I saw in the south an example of what county agricultural agents could do to get key information to farmers that needed to keep up with the most modern way of operating. And it was a very human network, human faces, Peter Witmer was at work. And this is a much more complicated field. But getting that direct network, there has to be a local—I mean, it just can't be mailers and big conferences assembled. It's got to have the human network. That's why I'm encouraged by what we've heard in the second panel of the consortium and the work with the Commerce Department and Agricultural Department in the State.

We will hold a hearing in April of the Subcommittee in Washington with Federal officials and I'll take some of this information directly to them and put some questions as we proceed as to what we can do better in how we respond to this export strategy.

I want to say to the very good spectral participants who are sitting there and are not testifying that this is a formal hearing, we'll have a record and we have rules in the Senate on a hearing. So that, there is a process of witnesses but I used to teach courses, seminars on civil disobedience and the spirit has to move, too, on occasion. And we have just a little time at the end.

First, I want to invite anyone who has a submission, I think we've already had some, that we'll put in for the record and our Philadelphia Regional Port Authority is itself a kind of world trade center. I would specifically like to invite our regional port authority colleagues, anyone who wants to put something in, Lou Louderback I know does. So, if Lou would rise.

Mr. LOUDERBACK. I want to compliment our panelist. I think they did great, particularly the gentleman who spoke five or six languages. I have enough trouble with English, let alone five or six other languages. I just want to mention, I'm on the Greater Philadelphia Board of Directors at the Chamber of Commerce and have been deeply involved in the Philadelphia Port for many years.

I felt we were for many years—short changed, but we've got a very dynamic Board and an extremely dynamic staff today that have made us much more competitive and mine isn't individual export or whatnot, ours is trying to increase the volume of business in and out of the Port of Philadelphia, which supports, I don't know, what it is, 11 thousand jobs in the Philadelphia area.

So, mine is more of an overview and I hope all these good people here who were testifying who are shipping exports are using the Philadelphia Port. We would certainly appreciate the business, to

take a little personal plug. And to digress just a little bit, Senator, and the main reason I came is because I felt that the Philadelphia Port Authority would be well represented here, but the main reason I came is I'm a small business and always have been.

Our family business was started by—well, I'm the fourth generation. It started back in 1866. We started in horses and wagons in northeast Philadelphia and have grown to a major moving and transportation company in the Philadelphia area.

And I've heard these people expound on banks. If we don't change the banking attitude in America, we're going to destroy all the small businesses, because banks will not support small businesses today. It's nice to say if we get a government appropriation, a government guarantee, we will make loans. But on face value, the banking attitude in America is, we don't want you. And this is from my own individual experience which was extremely bad, but it's every other person you talk to who has had an extremely bad experience. Banks do not want to loan money to small businesses in particular.

They're investment groups now. They take the deposits and pay one or two percent interest and invest it at eight or nine percent interest. They're investment clubs. They are no longer what you would term a few years ago in the banking business.

If I might take one other liberty while I'm up here, and I probably will whether you agree or not, but the inheritance tax that the Federal Government subjects small businesses to, and everybody says small business is the back bone of America, but the statistics say that there's only two or three percent of small businesses that survive into the second generation. And it's mainly because of the inheritance taxes that they're subjected to.

My family would have had to pay somewhere in the neighborhood of a million and a half to two million dollars in inheritance taxes in cash. The Federal Government wants that right away. It's just not there. So, I had to put a tremendous burden on our business to go out and spend \$100,000 - \$150,000 a year on life insurance, which is just an unbearable burden. It's just unnecessary, but I have a feeling that the insurance lobbyists in Washington keep the inheritance laws the way they are, because they're making billions of dollars off small businesses that have to cover their backs constantly with insurance so that their family doesn't lose the business.

The CHAIRMAN. We are trying to focus on export problems. Your first point is very pertinent to this. It's what we've been talking about, the degree to which small business will get credit.

You do understand why after some of the experience with international lending of the last couple of decades it's probably even harder for banks to grant it. And the truth of any part of what you said, it's even harder for them to take the risk overseas. That's why these Federal programs probably are very crucial. The export/import bank we've been told here right now is crucial for breaking that ice on export expansion.

I take it you're not against export/import guarantees.

Mr. LOUDERBACK. Oh, no, any way that we can generate our export/import business is great. But I just respectfully submit that

there's other things. And that's the main reason you have on your letterhead here that you are involved in the small business.

The CHAIRMAN. Absolutely.

Mr. LOUDERBACK. And I just feel on an overview of America we have to change the banking attitude in America before we're really going to get this economy moving again.

The CHAIRMAN. A bill just went through the Senate, community banking institutions bill. I don't know if any one of the panel members are up-to-date on that bill and what effect it will have, but it's to strengthen community banks in their role of supporting small businesses within their community. And the community banking world has been very pleased with that bill.

Does the panel have any comment further on this or any other point? We have one gentleman who wanted to say a word before we close.

Mr. THOMPSON. If I may, I'm Richard Thompson, with Thompson International here in Philadelphia. I've been an exporter for 25 years and I'm as small as they come. I would be bigger I think if some of these integral domestic policies and situations were healthier. Mr. Louderback alluded to the banking attitude, but my experience has been pretty good. However, my business is a lot smaller.

In the legal realm, we have a tremendous cost here that I think is more fearsome than the financial burden of the banks. I deal in all the countries, and I've kind of evolved from an export manager to an export distributor, so I'm buying from various factories in the industrial area, processing equipment, engineered sales and I'm appalled at the turnover that I have to buy a Thomas register every year to keep up with the changes of American companies that are put into play.

They're absorbed, they're bought out, they're machinated around so you can't tell who is who any longer. As we talk with all these various manufacturers, many of them from the Delaware Valley, we find that their costs are very high because of two reasons. Either they're carrying a legal staff to protect themselves from a hundred dollar lawsuit. It only takes \$100 to put a company in play and take them into court and the defendant has no alternative but to fight that or to lose by default.

So, we're suffering this tremendous overhead cost of a legal system that is unreliable or actually predatory.

On the other side, Senator, and I hope you carry this to Congress, this is very important that with a commercialized legal system where the lawyers are mostly looking at how they're going to make their bucks, how do I use legal services to take an overseas problem into court for my payment.

I've shipped. I've promised the factory they're going to get paid and I don't get paid. It hangs up in the banks or some way or other. I don't have any legal recourse. And here's how I solve the problem. I get cash in advance. It makes the deal smaller. It's very conservative and I can lose to somebody else. So, I do it in smaller pieces. And this is what small business has to do to protect itself, because they can't get into Court and get redress. It has to take smaller risks, so when it loses it can throw up its hands and still have something left to continue.



So, if we don't address the legal problems so that it's really a service industry to commerce an industry and export instead of its own profiteering monopoly, we never will be an export power.

The CHAIRMAN. Well, one of the service industries that we export along with the growth of merchandising exports, manufacturing exports is legal, if you want to call it service industry.

Mr. THOMPSON. You're right. It's amazing that we can export. It's almost like the movie industry, because if the people who were buying it knew how bad it was and how corrupt local judges could be, we wouldn't have much export there either. I won't tell them.

The CHAIRMAN. Those of you are reminding me what an interesting round table we could have if this was not a hearing. I hope I meet those of you who I haven't met yet.

First, I'd like to make sure that the human faces of my team are acknowledged, so that if you want to talk to them you may do so before you leave. Todd Bernstein heads our office of the east; Pracilla Pearson is head of constituent services; Iris Lasorta is there who is one of our active team members along with Allen Molensky. And you met Russell Redding earlier. Bill, thank you.

Mr. McLAUGHLIN. On behalf of the Philadelphia Regional Port, I want to thank you, Senator for visiting the Port of Philadelphia and also for reminding everyone that the Port Authority is, in fact, an enormous international resource for people. And we do business all over the world. Even as you were speaking, two vessels sailed up the Delaware River. So, this is a perfect time to come. We'll be happy to help you as you pursue your world trade initiatives on your own, but thank you very much and please come back again.

[Whereupon the hearing was adjourned.]

[Additional material submitted for the record.]

#### RECOMMENDATIONS OF COMMITTEE ON INTERNATIONAL TRADE AND FOREIGN TAXATION, MEHDI HOJJAT AND KENNETH R. PETRINI, CHAIRPERSONS

##### I. BARRIERS TO INTERNATIONAL MARKETS

1. Misconceptions (lack of awareness)
2. Marketing Information
3. Difficulties in Obtaining Export Financing
4. Distribution
5. Foreign Tax Credit (Double Taxation)
6. Cultural Barriers
7. High Costs of Entering International Markets Including Management Time
8. Documentation
9. Transfer Pricing and Currency Risks
10. ISO 9000 and Other Foreign Government Standards
11. Legal Aspects (Warranties, Insurance, Consumer Protection)
12. Export Licensing and Controls

International Trade is most greatly facilitated by a sound macro economy that preserves stable interest and exchange rates through controlled inflation and sustainable growth. Legislation that would limit such macro stability, such as reducing the independence of the Federal Reserve, excessive changes in deficit management (either to increase or decrease), or any further tax increase would be counter-productive to any other positive measures that may be taken.

Existing nonessential, conflicting, and burdensome documentation and regulation as well as expensive social welfare programs should be removed from business so as to facilitate microeconomic competitiveness. Any such future programs should be evaluated critically with an eye to the question of competitive impact on business (e.g. health care).

The focus of public policy should be directed through existing agencies currently supported by government. No new agencies or economic planning bodies should result. The primary focus should be on education and the coordination of information



as (demonstrated by the new "National Export Strategy" which reflects) the realities of the global, technologically sophisticated economy in which we live as well as the opportunities that exist for business and individuals to be involved in the international economy.

## II. RECOMMENDATIONS

### 1. Provide Incentives

A. Direct Subsidy to firms for attending trade shows or trade mission similar to the Pennsylvania Export Partnership Program.

B. Direct subsidy and changes in tax treatment for up-front costs of entering new international markets.

2. Commitment to negotiate for a fair trade through GATT and avoid using bilateral trade restrictions for foreign policy purposes (tools). Multinational Institutions should be used to impose embargo and other trade restrictions.

3. Simplification of taxes for Foreign Sales Corporations.

4. A. Foreign Tax Credit Improvements.

B. Stop the Spread of 'U.S. Tax Imperialism'.

5. Expanding the role of Eximbank to provide financing to new-to-export firms.

6. Provide incentive for quality improvement and ISO 9000 certification.

7. Provide incentive for workforce preparation in entering international markets. This preparation should include cultural, language and other types of training.

8. Reducing the trade imbalance with Japan by a certain percentage or certain amount per year.

## III. COMMENTS AND INFORMATION ON SELECTED RECOMMENDATIONS

### 1. Provide Incentives

Other countries provide subsidies ranging from interest-free expansion loans to Government-supported fee-paid trade missions. U.S. small businesses needs direct government financial support to compete effectively in the international marketplace. Current tax incentives and programs through the U.S. Small Business Administration (SBA) and the Eximbank are not sufficient.

**A. Direct Subsidy to Firms for Attending Trade Shows or Trade Missions Similar to the Pennsylvania Export Partnership Program.**

Trade missions are an effective means to promote exports. They allow U.S. potential exporters to participate in an introductory "guided tour" of overseas business opportunities. Because these missions are led by experienced government and private-sector officials, novice participants are more likely to secure worthwhile business introductions to genuine opportunities. The extensive planning that goes into such missions assures that the participants' time is well spent abroad. Participants can also create valuable links leading to possible joint ventures and other cooperative marketing efforts. Pennsylvania Export Partnership Program provides a model for this subsidy.

### PENNSYLVANIA EXPORT PARTNERSHIP PROGRAM

The Pennsylvania Export Partnership (PEP) Program was established to promote the sale of Commonwealth-manufactured goods and services in foreign markets. The PEP Program is a means for various Federal, State and local government and non-government entities to work cooperatively, by sharing expenses, resources, and information to promote business opportunities that exist for the exporting of Pennsylvania goods and services to foreign markets. The Trade Event Grant Program and the Regional Export Matching Grant Program are two distinctly separate grant programs funded under the PEP Program.

### THE TRADE EVENT GRANT PROGRAM

Under the Trade Event Grant Program, grants of up to \$2,500 may be provided to businesses to help defray certain costs incurred by exhibiting or attending an international trade event. These grants are provided directly to the company through services from the Department of Commerce to encourage and assist those businesses which otherwise could not afford the total cost of attending these events.

### THE REGIONAL EXPORT MATCHING GRANT PROGRAM

The function of the Regional Export Matching Grant Program is to assist in and encourage the operation of regional export development programs. In order to accomplish this task, the Department of Commerce intends to select Regional Export Service Providers (Providers), each of whom shall administer a Regional Export Development Program.

## **B. Direct Subsidy and Changes In Tax Treatment for Up-front Costs of Entering New International Markets.**

Tax incentives are the most efficient way to ensure our economy remains internationally competitive. Providing tax incentives is one of the few ways the Federal Government can foster exports without directly choosing companies that receive benefits; successful businesses are selected by market competition. While tax incentives may affect the Federal deficit negatively in the short run, it is "money well spent": successful companies stimulate additional economic activity and generate more tax revenues.

### **EXPENSES OF ESTABLISHING AND MAINTAINING FOREIGN OPERATIONS**

#### **STATEMENT OF THE PROBLEM**

U.S. taxpayers incur substantial expenses in establishing foreign operations. In many cases, especially where a new legal entity is established, a question arises as to whether the expenses are currently deductible, are deductible only as a start-up expense under Code Section 195, or are proper expenses of the foreign venture and only deductible by it. As the foreign venture will often be in a tax loss position, it may be some time, if ever, before the benefit of the deductible expenses is realized by the U.S. taxpayer. Also, the expense may not be viewed as deductible by local tax authorities.

U.S. taxpayer may also need to support the foreign venture with home office support and with the assignment of expatriates to the venture. This will often entail substantial cost. Again, there will be a question as to whether these costs are currently deductible and by whom. These expatriates will incur additional costs as a result of the assignment that are borne by their employer. This leads to an inflation in the amount of reported compensation due to foreign housing expenses, cost of living allowances, etc. This will seldom result in substantial additional U.S. tax liability due to the earned income exclusion, foreign housing allowance and foreign tax credit. Substantial expense in reporting, grossing-up and claiming tax credits will be incurred, however. In addition, with the elimination of the medicare wage cap, employer and employee medicare payments will be required, often both at the employer's expense. Usually, this will need to be grossed up for foreign taxes which could mean that the cost of paying this additional medicare will be 10 percent of compensation or more.

#### **RECOMMENDATIONS**

Section 195 should be amended to provide for immediate deduction of the cost incurred in establishing business operations in a new geographic area, defined by reference to national boundaries, and to allow for deduction of support expenses, including expatriate personnel, by the U.S. investor.

Expatriate allowances should be excludable at the election of the employee (with a reduction in the creditable foreign taxes) for income tax purposes and should not be included for employer or employee medicare tax contribution purposes.

In addition to this amendment, in order to encourage expansion of exports, a tax credit equivalent to a portion of up-front costs of entering new international markets should be provided to exporters. These up-front costs should include any sales and marketing expenses and expenses related to building distribution networks which would result in direct or indirect export of U.S. products.

**2. Commitment to negotiate for a fair trade through GATT and avoid using bilateral trade restrictions for foreign policy purposes (tools). Multi-national Institutions should be used to impose embargo and other trade restrictions.**

#### **TRADING BLOCS VERSUS GATT**

##### **The Destructive Role of Blocs**

Large powerful blocs are seen protecting their markets against outsiders with restrictions on imports and investments. Trading blocs are putting pressure on the GATT system itself to the degree that the system may collapse. Should that happen the world could be without any all-encompassing structure to govern trade and investment flows.

One of the doomsday scenarios of the near future is a trade war. Worst still, each block may feel that such a war is winnable. Each has solid resources of capital and technology as well as considerable natural resources. The problem is that if such a process of protectionism is started, it is quite difficult to stop and reverse. An excellent example of this scenario is a trade dispute between the United States and

Europe which has its roots in a 30-year agreement that the Europeans have not followed despite GATT findings for the United States. EC subsidies deprive U.S. farmers of the benefits of negotiations in the 1960's on oilseed imports to zero. First it shows the lack of authority of the GATT, and secondly, it indicates the willingness of the two big traders to start a trade war if necessary.

With a worldwide reduction of barriers, worldwide GDP would increase by 1 percent and would trade grow by 6 percent. If liberalization only occurred within the three main blocs, GDP would grow by 0.4 percent, and trade by 3 percent. Should the blocks raise barriers between each other, gains would be negligible.

The use of trade retaliation for foreign policy or human rights violations should be increasingly initiated by multinational institutions (IMF, UN, World Bank) rather than through unilateral actions by the U.S. These unilateral actions mark the U.S. policy as unstable and send conflicting signals to other trading partners as well as U.S. companies doing business abroad.

The commitment to be a world leader in multi-lateral trade liberalization through GATT. While regional arrangements, such as NAFTA, have advantages they are an inferior solution to world-wide agreements, and they could deteriorate into trade wars if not managed with a firm commitment to the global agreements. While GATT must remain the centerpiece of our policy the United States should continue to pursue regional liberalization as well with the Americas, APEC and the EC.

### **3. Simplification of Taxes for Foreign Sales Corporations.**

#### **STATEMENT OF THE PROBLEM**

The current rules regarding foreign sales corporations (FSC) are complex and difficult to administer. While remaining consistent with GATT, these rules should be no more onerous than is required in order to comply with GATT. Furthermore, although the foreign sales corporation rules are designed to encourage export trade, the Internal Revenue Service apparently perceives the FSC rules as a potentially abusive and applies greatly to the taxpayers. This level of scrutiny impedes the Congressional intent of furthering export trade.

Furthermore, the rules regarding sourcing of income favor foreign manufacture of goods destined for foreign markets as the profits from U.S. manufactured export goods are, at least partially, sourced as domestic source income. This is an unintended incentive to manufacture abroad.

#### **RECOMMENDATIONS**

Congress should express its intent to the Treasury Department that the regulations regarding foreign sales corporations be simplified and that the Internal Revenue Service reflect the spirit and intent of the FSC rules in their audit activities.

It should be clarified that the sale or rental of customer-based intangibles (such as a subscription list rented by a publishing concern) to unrelated parties constitutes an item that qualifies for FSC treatment.

The FSC rules should also be amended to allow a fair allocation of income to the FSC, such as by allowing book depreciation to be used in determining FSC profit.

All income from exported goods should be sourced, at the taxpayer's election, to foreign sources.

### **4.A. Foreign Tax Credit Improvements.**

#### **ELIMINATION OF FOREIGN TAX CREDIT BASKET FOR NONCONTROLLED CORPORATIONS**

##### **STATEMENT OF PROBLEM**

Under the current foreign tax credit regime, foreign source income and associated foreign tax credits are segregated into several categories or baskets. The rationale for this is to prevent credits associated with certain kinds of income for being available to be used to shield U.S. tax on other types of income. The Tax Reform Act of 1986 added a category for less-than-controlled corporations, the so-called "10-to-50 basket." Each of these corporations must be placed in a separate basket, preventing the pooling of income and credits with general business income in the overall basket, as well as with other 10-to-50 basket companies. U.S. businesses which establish ventures in foreign jurisdictions often find it necessary to take less than a controlling interest in the foreign joint venture, resulting in numerous 10-to-50 basket companies. The level of direct business involvement of the U.S. company in the joint venture will often be the same as is associated with controlled or wholly owned companies, so that credits from active and passive activities are not being co-mingled. Because of the inefficiencies resulting from 10-to-50 basket companies, U.S. taxpayers are forced to employ numerous means to avoid the 10-to-50 basket re-



quirement, including structuring foreign ventures so they qualify as partnerships under U.S. tax law.

#### RECOMMENDATION

The separate basket for 10-to-50 percent owned corporations should be eliminated, and all 10 percent or greater owned ventures should be included in of the overall basket.

#### EQUITY IN ALLOCATIONS OF EXPENSES FOR FOREIGN TAX CREDIT

##### STATEMENT OF THE PROBLEM

The current rules for allocating interest expense and other expenses under Section 861 significantly disadvantage U.S. manufacturers and create undue uncertainty. The U.S. law, in effect, provides for a partial disallowance of interest expense, R&D expense, G&A, State taxes and charitable contributions if the U.S. company is not otherwise in a position to utilize foreign tax credits and/or is in a minimum tax paying position. Foreign-owned entities investing in the U.S. can avoid minimum tax problems while the foreign tax credit is irrelevant to them. The rules requiring an allocation of interest expense, R&D, etc. against foreign source income should be modified so as not to penalize the U.S. company for investing, either in the U.S. or outside the U.S., and to put it on a level playing field with its foreign competitors.

Also, the rules regarding allocation of R&D expense have changed so often that effective planning is impossible.

##### RECOMMENDATIONS

The rules regarding the amount of interest expense allocated against foreign source income should be modified to avoid current distortion. Taxpayers should be permitted to use the same depreciation lives in determining foreign source income as apply to assets used in the U.S. Currently, the foreign assets are subject to a longer depreciation life and draw an inappropriately large amount of interest allocation.

The rules regarding specific allocation of interest expense should also be liberalized to allow for the utilization of the rules regarding nonrecourse debt. The current regulations are so strict that it is impossible to structure debt so as to be nonrecourse and to be specifically allocated to a project even though it is economically nonrecourse debt associated with a U.S. business. Taxpayers should be allowed to allocate interest expenses on a reasonable line of business method that would prevent expenses associated with a purely domestic line of business from being allocated to foreign sources, especially where that line of business, by its nature, is heavily debt financed.

The R&D allocation rules of Section 864(f) should be made permanent.

#### **4.B. Stop the Spread of 'U.S. Tax Imperialism'.**

##### DESCRIPTION OF THE PROBLEM

In various areas, U.S. tax law has developed a detailed system of rules and regulations which govern the operation of U.S. taxpayers. While these rules and regulations may have obvious application in the domestic tax field, they may be counterproductive and inappropriate in the international context. One prime example would be the imposition of U.S. pension concepts under Code Section 404A. While Section 404A is a necessary provision, recent regulations represent overkill. Under these proposed regulations, Section 404A would be the only way in which a U.S. corporation could take a deduction or reduce earnings and profits as a result of contributions to or reserves for pensions or other deferred compensation under foreign pension and related plans. Section 404A requires compliance with U.S. funding rules, as well as U.S. trust requirements, in the case of trustee plans. These rules can be wholly inapplicable in an international context where pension plans are established pursuant to local practice and custom and are governed by local rules.

Another area where U.S. concepts may be inappropriately applied concerns transfer pricing between related foreign affiliates. Under Section 482 and the regulations promulgated thereby, U.S. transfer pricing concepts would apply to a transfer between related foreign affiliates. These concepts may be appropriate to apply where two foreign entities are involved. Those entities must be free to determine a transfer pricing mechanism which meets the requirements of their respective jurisdictions without regard to the rules of the ultimate U.S. parent.



## RECOMMENDATIONS

Section 404A should be amended to allow for a deduction or reduction in earnings and profits to the extent that the amount is allowable under the laws of the jurisdiction under which the pension plan is maintained.

Section 482 should be required that the regulations issued thereunder be compatible with international norms of other major trading partners. The transfer pricing rules under Section 482 should further provide that no adjustment will be made to the transfer price between two non-U.S. corporations where that transfer price is acceptable by the tax authorities in question.

**8. Reducing the trade imbalance with Japan by a certain percentage or certain amount per year.**

## TRADE DEFICIT WITH JAPAN

*No Incentive. . .No Change*

It is very, very difficult, if not totally impossible, to convince a nation like Japan, which is taking a \$100 billion surplus to the bank every year and which is on the way to conquering the world economically, of the urgency to change course. After all, they see the surplus simply as their reward for hard work.

No nation is capable of changing more rapidly and dramatically than Japan. But, Japan will not change without an incentive to do so.

We should make sure Japanese companies pay a fair share of American taxes and that they do not have an undue influence on our government in Washington. We should advise Asian countries that the "buy from Japan, sell to America" days are over. We should also make it clear to Japan that the trade blocks that are now forming will serve to exclude Japan, if it does not start including more outside players in its own market.

## BACKGROUND

The passage this year of NAFTA and approval of the Uruguay round of GATT negotiations, will stimulate international trade principally through further reduction of tariffs and elimination of artificial trading barriers. The 1993 U.S. trade deficit will exceed \$115 billion, its poorest showing since 1988. The imbalance in trade can in large part be targeted to the Pacific Rim countries, and principally to Japan and China. New Marketing and Sales efforts to Pacific Rim countries for many reasons present a more awesome challenge to Americans than for example, similar efforts in the Europe market. Cultural and language differences, labyrinthian and unfamiliar distribution patterns, and in the case of Japan, the sheer cost of trade shows, travel, and living expenses taken together, explain a reluctance by U.S. companies to aggressively market in the region. Many U.S. firms will bypass opportunities to investigate the markets in the Pacific Rim in preference to Europe. The sheer size of the trade deficit with this region is by itself destabilizing both in political and economic dimensions. In my mind, this trade deficit demands special incentives by our government to stimulate the sales efforts and marketing plans by U.S. companies.

## THE PROPOSAL

Please review on the Federal level the array of trade incentives and assistance available to U.S. business. I would propose as legislation a tax credit (similar to an investment tax credit for equipment), for marketing and sales planning costs, trade exposition participation, translation and production of sales materials, and similar costs associated with preparatory efforts to penetrate targeted markets. Consideration should be given to GATT concerns about government subsidy and countervailing trades measures.

From my review of GATT, the incentives I propose could be considered akin to the "pre competitive" development activities which are not proscribed. The tax credit should be dramatic. I would propose 25-50 percent of cost associated with market entry activity. The impact of successful marketing activities generated by this initiative would be sales and profits in the U.S. Taxes on such profits would defer the cost of such credits. There is a likelihood that such a credit will be self funding.

PREPARED STATEMENT OF TED A. NASH, PORTS OF PHILADELPHIA MARITIME  
EXCHANGE

IDENTIFYING REMARKS

The Maritime Exchange was established in 1875 to represent the needs and concerns of the private business community at the Ports of Philadelphia. The Exchange is currently comprised of approximately 200 port-related businesses, including shippers, stevedores, marine terminal and warehouse operators, ship and harbor service companies, customs brokers, freight forwarders, and inland transporters. The goal of the Exchange is to create and maintain a positive business environment at the Ports of Philadelphia.

In addition to acting as a trade association for its members, the Maritime Exchange has operating responsibilities within the Delaware River port system. The system is a 120-mile channel which stretches from the lower Delaware Bay to Morrisville, PA. Included in the system are general cargo ports in three states: Philadelphia and Chester in Pennsylvania; Camden, Gloucester and Salem in New Jersey; and Wilmington, DE. Seven major refineries are located along the Delaware River; making this the largest oil refining center on the east coast. The Exchange is responsible for tracking and reporting the movement of more than 2,700 ships which transit the Delaware River annually. The Exchange has also developed and operates a computerized system to electronically clear imported cargoes through U.S. Customs, as a service to the Ports of Philadelphia.

TESTIMONY

Senator Wofford, my name is Ted Nash. I serve as the Special Projects Manager for the Ports of Philadelphia Maritime Exchange under President, William A. Harrison, who sends you his warm regards and also thanks you and the PRPA for creating this opportunity for our maritime community and all business persons within the state to discuss their views, problems, and the new programs needed to expand their business potentials relative to the Ports of Philadelphia, the Commonwealth of Pennsylvania, and the entire region. This is a valuable step to advance our hopes and understanding of small business and creates a smoother path for the manufacturing and shipping of new cargo.

We, at the Exchange, advance the opportunity for cargo related business and resultant jobs which are of vital importance to our economy and of course to our many Exchange members, regardless of size. Our membership includes corporations as large as Canadian Pacific and Conrail; Chevron, Sun, and similar size refineries; marine terminal operators; all the way down to the individual business enterprise and the favorable ripple affects these businesses all create within the tri-state region.

Our Delaware River serves as the main artery and a major waterborne passage for vessels and high volume cargo in transit to and from Pennsylvania, Delaware and New Jersey.

A concern of the Maritime Exchange is that along with the most valuable plans of this good hearing and its forums of panelists and the solutions for progress to advance small business and expand state export cargo which we strongly support, we must be ever aware of the need to maintain the Delaware River ship channel, this region's export artery to the ports of the world, as we would maintain any major highway.

Without constant support for the regular and annual maintenance dredging of the river channel and without major political support for a global future for our ports through the Corps of Engineers 45-foot Delaware River channel deepening project, we may easily lose the interest of shipping line growth. We must not be bypassed nor diminished in our port position as our future business expands with its need to move the newly created exports being discussed here.

We will hear from a small business leader, CEO, Robert C. Cotton of Cotton Gourmet Foods, who sends his Pennsylvania made baked goods over the road to an export terminal and ongoing to French markets. What if winter pot holes on his highways prevented his business from any delivery? We wouldn't think it possible. . . and wouldn't stand for it.

Likewise, our river is this region's super "water highway"; carrying most of our international commerce. We are now fighting for the funding and support to simply meet our authorized 40-foot channel depth requirement. The Exchange supports the future of the export advances that are being discussed today by noting the need to advance the global shipping plan to deepen the channel to 45 feet. This river is the link for exports and imports to which trade is bound in our region. Our river must

properly maintain its presently authorized 40 foot depth while we continue to work for future business by improving port access.

The Exchange encourages the diligent watch by export associations for its own conduit to the world—the Delaware River. We enlist all the panelists of this hearing and further we request that Senator Wofford help us keep the “super river” open, safe, and ready for the 21st century and our state export hopes.

Thank you.

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#### PREPARED STATEMENT OF DAVID J. SCHURZ, WORLDWIDE MARKETING SERVICES

Mr. David Schurz is President of Worldwide Marketing Services. His company specializes in working with small and medium sized U.S. firms to begin or expand their international sales.

By concentrating on the political, economic and cultural variables in each market, they help smaller firms eliminate the risk and maximize the profit of doing business overseas.

Since 1987, Worldwide Marketing Services has concentrated its efforts in the Environmental market, conducting business on behalf of clients in over 65 countries.

Their recent activity has been concentrated in the Eastern European market, addressing the enormous environmental problems in that region.

Mr. Schurz led the first U.S. Environmental Trade Mission to Poland in 1990 to attend POLEKO. In November of 1992, Mr. Schurz represented clients at the Krakow Clean Coal and Fossil Fuel Symposium sponsored by the Department of Energy. He also took part in the United Nations Industrial Development Organization (UNIDO) Investors Forum on Privatization in Warsaw.

Most recently, Mr. Schurz was invited to give testimony at the Environmental Technology Export Promotion Stakeholder Meetings, sponsored by the White House Office of Science and Technology, the EPA, and the U.S. Departments of Commerce and Energy.

Worldwide Marketing Services is a team of business professionals dedicated to assisting small- and mid-sized U.S. firms to begin or expand their exports.

Since 1985, we have provided Export Management services to a number of firms in Pennsylvania, acting as their Export Department. Our approach is hands-on. We don't just write reports or submit plan. We work directly with the staff of each company, to sell their products overseas.

Our ongoing involvement with these companies has included market research, advertising and promotion, hiring of agents, sales training, trade show/trade mission participation, quoting activity, and the processing of actual export sales, including payment.

We have concentrated our efforts on smaller companies because we know many PA companies could and should be exporting. However, most of these same companies lack three important elements to be successful at exporting: Money, personnel and know-how.

In order for firms to be successful in international business they must make a long term commitment. They must have the economic resources to pursue exporting. They must have competitive, quality products and services. And they must have the ability to respond to the additional demand generated by export sales.

On behalf of our clients, we have fully accessed the available resources from the Federal, State, County and Local Agencies which provide export assistance. This includes access to: market research, database information, trade show and trade mission activity, publications, and seminars.

From our viewpoint the following problems exist with the current structure:

1. There is a duplication of effort among these agencies. Most, if not all of them, provide the same basic exporting information. Most of this data is not target specific but fairly general in nature. Because there is such duplication, these agencies tend to compete with each other for patrons from the business community.

2. These Agencies charge fees, some more than others, for these basic-services. This is costly to a smaller firm. Some Agencies or Councils are now charging a “membership” fee in order to provide information that is available free elsewhere.

3. These Agencies tend to oversimplify Exporting. They offer little, if any, hands-on help for companies new-to-Export. They recommend “go to this trade show” or “attend this seminar” and “you can export too!” This over-simplification negates the need for more qualified, hands-on assistance and makes light of the often complicated international marketplace. It also fosters a casual rather than long term commitment.

4. There is a bureaucratic mentality alive in these Agencies as well, which does little to foster Exports. Personnel are required to produce a quantifiable story to jus-



tify their funding, i.e. how many people attended the seminar, or how many exhibitors were at the show or how many dollars worth of sales did they get at the show? This is a simplistic accounting of success which is unrealistic to the international marketing experience.

5. Government sponsored Agencies are not permitted to make direct referrals to firms, such as ours, which could provide the expertise and hands-on assistance that these new-to-Export firms need. Instead, we must find each other, usually after the firm has expended much time and energy and made costly mistakes.

What could be done? Opportunities for improvement.

1. Expand the lines of credit available to smaller companies specifically to develop export markets. These should be monies for both market development and manufacturing of the additional product needed for export.

2. Develop a program to do an initial assessment of a company to see if they could or should be exporting and to where. ITA could administer such a program. Competent international service providers in the State could be paid a fee to prepare the initial assessments.

3. As with the TAAC, Trade Adjustment Assistance Program, make funding available to small and mid size companies to get hands-on assistance from qualified Export Management firms. These EMs would work directly with a firm for a minimum 2-year period and get them up to speed in exporting. The professionals would develop the markets, set up agents, process sales and train in-house personnel to take over at the end of the contract period. A payback plan by the recipient companies could be incorporated as income from exports is generated.

These monies invested in the use of Export Management Companies will ensure consistent increases in exports and thereby give a greater payback through job creation than any of the programs now in place.

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#### PREPARED STATEMENT OF RITA L. POLLOCK, SOUTHWESTERN PENNSYLVANIA REGIONAL DEVELOPMENT COUNCIL

Thank you for the opportunity to submit this testimony on the Trade Promotion Coordinating Committee's report "Toward a National Export Strategy." As the executive director of the Southwestern Pennsylvania Regional Development Council, I concur with the findings of the report and endorse the stated strategy.

Before offering specific comments, I would like to introduce the Regional Development Council. Incorporated in July 1992, the Council is the nine-county Local Development District for southwestern Pennsylvania. The Council carries out economic development and business assistance programs of the U.S. Appalachian Regional Commission, the PA Department of Commerce, and the Council's member governments. The Council's work is enhanced by its brother organization, the six-county Metropolitan Planning Organization, the Southwestern Pennsylvania Regional Planning Commission.

The Council's mission is to increase the region's overall economic vitality by helping local small- and medium-sized businesses to become more stable and expand their productions and sales. Our primary programs include export development, business loan packaging, government contracting, and information management and referral. The Council's members include the counties of Allegheny, Armstrong, Beaver, Butler, Fayette, Greene, Indiana, Washington, and Westmoreland and the City of Pittsburgh.

Export assistance is one of the leading programs of the Council. The Council's Export Assistance Program regularly helps over 600 of our region's small- and medium-sized businesses by notifying them about timely, potential export opportunities and working closely with interested companies to assess their exporting needs and capabilities and develop customized strategies for reaching targeted foreign markets. The Council's export staff provides these businesses a diversity of services through the program's three-part process that covers trade leads, trade events, and market research. Specifically, the process involves developing client services through providing daily matched trade leads, on-going promotional and technical information about international trade shows, market research to assist with development of market entry strategies, detailed information on foreign trade regulations, and export financing and logistics. Supporting these activities are the National Trade Data Bank and a comprehensive set of three regional business databases that the Council maintains. The Export Assistance Program also provides an opportunity-based series of seminars and referrals throughout the region's local network of trade specialists and publishes a quarterly, regional exporting newsletter, Export Opportunity Update.



As a result, during the past 18 months the Council's Export Assistance Program has provided over 3,300 targeted trade opportunities and worked directly with 44 local companies to develop their individual export strategies. So far, the Council assisted companies reported over 350 foreign contracts with a cumulative value of more than \$17.6 million.

Regarding assistance for trade events, the Council staff has worked closely with the PA Department of Commerce to promote nearly 20 trade shows since late 1992. For this, the Council processed an average of 130 announcements for each trade show or close to 2,600 notices. To support these, the Council recently initiated a series of targeted trade seminars, the first two of which drew a total of 24 companies and organizations were represented at the seminars by a total of 33 participants.

In addition to its Export Assistance Program, the Council is also developing a pilot project with the PA Department of Commerce's Regional Opportunities Initiative that will comprehensively assess the exporting capabilities of manufacturers in southwestern Pennsylvania's industrial river valleys. Further, the Council recently received a grant from the state Department of Commerce's Accelerated Market Entry Europe program to assist local businesses through a series of detailed European marketing plans, contact listings and competitive analyses. The Council also recently received a grant from the U.S. Appalachian Regional Commission to jointly develop and provide three comprehensive export marketing guidebooks to local businesses in the computer software, engineering and environmental services, and custom manufacturing sectors.

Through our work, the staff of the Council meets almost daily with members of the business community in the nine-county, southwestern Pennsylvania area. We also work directly with the region's development and planning practitioners as well as its civic leadership—the individuals that are responsible for guiding and implementing economic growth initiatives. From this on-going contact, we are well aware of both the needs of our businesses and the objectives and effectiveness of the various public assistance programs designed to serve these needs.

For example, in concert with the above activities, the Council works closely with other export assistance organizations in southwestern Pennsylvania. Notably, we have had substantive discussions about "One Stop Shops" with John McCartney, Director, Pittsburgh District Office, U.S. International Trade Administration. We are very interested in having a One Stop Shop" in Pittsburgh and supporting it through the collective services of the Council and other local export assistance providers.

To better illustrate, the Council recently received a designation as the Regional Service Provider for the PA Department of Commerce's new Pennsylvania Export Partnership program. In short, the designation enables the Council to promote the state's exporting initiatives and to provide grant reimbursement funds to local businesses attending foreign trade shows. However, the Council utilized this opportunity to work directly with a collection of the region's export assistance agencies and lay the ground-work for initiating a regionally-comprehensive export assistance delivery mechanism.

In addition to the "One Stop Shop", the Council particularly endorses the report's recommendations concerning export financing. Access to export financing needs to be drastically broadened, particularly in the less urbanized areas and for small- and medium-sized businesses. Low interest loans to support exporting ventures are also needed to encourage foreign trade and more private capital investments.

Regarding trade events, the proposals to centralize and focus the trade event program is especially noteworthy. Trade events are very often intimidating to the new-to-export companies. The proposed centralization will help to reduce the difficulty a business encounters in preparing for an event. Further, focusing events promotion on export-ready firms will make the most productive use of the limited resources of both companies and the public export assistance providers.

Finally, I encourage you to strengthen the Federal-state relationship. Stronger communication and program coordination is greatly needed. More productive services to business will result, while businesses will have less confusion about where to find the services they need. To help facilitate this, there already exists a highly effective network of Local Development Districts and Economic Development Districts, sponsored by the U.S. Appalachian Regional Commission and the U.S. Economic Development Administration, respectively, with input from State government.

Regional organizations, such as the local and economic development districts, can be valuable partners with the State and Federal Governments in export promotion. With close proximity to businesses, these regional organizations can best understand the local business culture and the local economic climate. Proximity also makes outreach accessible and personable. In our experience, meeting with a business at the company site creates the personal trust, rapport, and depth of understanding which underlies all successful business assistance efforts.

Again, thank you for the opportunity to present the Council's position on these very important issues.

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PREPARED STATEMENT OF JAMES R. PALMQUIST, AIR PRODUCTS AND CHEMICALS, INC.

Good morning. I am James R. Palmquist, Manager of Project Transportation for Air Products and Chemicals, Inc. I would like to thank you for the opportunity to present these comments on the issue of export promotion. I will begin my testimony with a summary of my background and a brief overview of Air Products' experience in international trade. I will then offer a few specific comments on the Administration's export promotion program as presented in the September 1993 report of the Trade Promotion Coordinating Committee (TPCC).

My responsibilities at Air Products include managing the transportation of heavy industrial equipment manufactured at our facilities in Pennsylvania and other locations. Much of this equipment is exported, including the very large liquid natural gas heat exchangers assembled at our Wilkes-Barre plant. Later in this testimony, I will discuss a particular infrastructure issue we face in the distribution of LNG equipment to overseas customers. Prior to my present position at Air Products, I managed International Distribution and International Operations in our company's Chemicals Division, a business which is also highly dependent on international trade.

Headquartered near Allentown, PA, Air Products is a Fortune 150 international company with operations in 29 countries and 14,000 employees worldwide. We have been successful in building a leadership position as an international supplier of industrial gases, specialty chemicals, energy and environmental systems, and related equipment. Sales in 1993 exceeded \$3.3 billion to approximately 100,000 customers in nearly 100 countries.

Air Products has staked its future on the ability to compete and win in the global marketplace. We now rely on approximately 40 percent of our revenues from exports and overseas operations. We have established a strategic goal of increasing that number to 50 percent of revenues generated outside the United States. Simply stated, for Air Products to grow, our exports have to grow. We are not alone in this thinking. This view is clearly reflected in the report of the Trade Promotion Coordinating Committee, *Toward a National Export Strategy*.

The TPCC report provides an excellent analysis of America's position in the world economy. While America remains the world's undisputed economic leader, the report recognizes that the world is changing around us. With the adoption of NAFTA, the United States is now a part of the world's largest economic region. Competitive barriers to trade are coming down in almost every region of the world. As stated in the TPCC report, in order for this country to continue to set the standards for the global economy, "our companies and the U.S. government must adjust our attitudes and improve the methods we use to promote exports." Following are specific comments on a number of the key recommendations contained in the TPCC report.

(1) Of prime importance to nearly every U.S. company engaged in the export of goods and services are export controls. While the Administration is concentrating its efforts on computers and telecommunications products, other goods and services will greatly benefit from a streamlined licensing and decision-making process. The current interagency review process creates unnecessary delays in the issuance of licenses. Additionally, clarification and simplification of U.S. export control regulatory requirements is essential. The current controls are complex and difficult to implement, especially in the project equipment business. The National Association of Manufacturers (NAM) recently completed a comprehensive review of the Export Administration Act and presented several recommendations to simplify the U.S. export control system. We encourage your careful consideration of these recommendations.

(2) Several recommendations of the TPCC deal with the need to "reinvent" government's export promotion services. These include creation of a unified budget for export promotion, establishing "one-stop shops" to serve as a single point of contact for all export promotion programs, and improve the coordination and communication between Federal and state agencies. We feel it is imperative that these actions be implemented as soon as possible.

There is far too much duplication of services among government agencies in this area. The focus should be on the creation of lean and expert organizations that share a common strategy of promoting American industry in the international marketplace.

(3) Improving the collection and dissemination of country-specific information and market research should be a high priority. This information is especially helpful to

smaller firms looking for export opportunities. The exchange of information between Federal, state and private organizations can also be improved.

(4) Making improvements in our government's "advocacy" efforts should go hand in hand with upgrading the system for gathering information on potential export opportunities. As pointed out in the TPCC report, other countries rank export support among their highest foreign policy objectives and use all possible avenues of leverage. The establishment of a high level Advocacy Coordinating Network would seem to be a significant improvement.

(5) Resource allocation or "prioritizing" is always a difficult issue. While government should not and cannot be in the business of "picking" industries to succeed, there are definitely areas where a concentrated government support effort would produce a higher yield than other areas. We believe the primary focus of government export promotion programs should be on supporting industries that have proven export potential, with particular focus on assistance for small and medium size firms. We also strongly support the objective of establishing more effective measures for assessing the value of government export promotion programs. Programs that are not effective or are duplicative should be eliminated.

(6) Federal and State Government can play an important role in encouraging compliance by U.S. industry with national and international standards. Nearly all Air Products' major facilities in the U.S., Canada and Europe are now certified under the International Organization for Standardization's (ISO) 9000 quality management systems standard. A number of our plant locations in the U.S. have partnered with State Government agencies to provide ISO 9000 training for our employees. As a result of these efforts, our customers are assured that products from these facilities are produced according to the most rigorous quality procedures.

As I mentioned earlier, there is one area I would like to discuss that is not covered in the TPCC report but which is critical to Air Products and a number of other heavy equipment manufacturers. That is the issue of transportation infrastructure improvements needed to support the distribution of our products.

As background information, you should be aware that a significant portion of our success as an industrial supplier results from our liquified natural gas (LNG) equipment business. Air Products pioneered liquefaction technology, and we are by far the largest supplier of LNG process systems and equipment in the world today. Our process and equipment have been selected for export to seven of eight LNG-producing countries including Algeria, Indonesia, Malaysia, Brunei, Australia, Libya and Abu Dhabi. Current annual production from these countries amounts to over 130 billion cubic meters of LNG for export to Europe, the Far East and the U.S.A. Over 90 percent of the total worldwide baseload LNG production capacity is produced with Air Products' liquefaction technology.

I'm pleased to say that Air Products' LNG business is also a Pennsylvania success story. The engineering and design of our product takes place at our headquarters in Trexlertown, PA. The Main Cryogenic Heat Exchangers, which liquefy the natural gas, are manufactured at Air Products' 170,000 square foot plant in Wilkes-Barre, PA, where a highly skilled force of 250 to 300 craftsmen employ state-of-the-art technology and equipment to produce our product. The giant equipment fabricated at this facility may reach 200 feet in length, over 14 feet in diameter, and weigh as much as 350 tons. To date, we have designed, manufactured and exported 49 heat exchangers from Pennsylvania. The combined market value of these exports is more than \$1 billion over the past 26 years. With the growing world-wide demand for alternative fuels, we believe the future of Air Products' LNG business is bright.

A primary concern which is now being addressed is the ability of the rail transportation infrastructure to accommodate future heavy equipment shipments from our Wilkes-Barre plant. Our customers are demanding larger, higher capacity heat exchangers. We have recognized this trend for some time and are currently designing and gearing up to fabricate even larger units to meet our customer demands. The problem is that the current rail clearance restrictions out of Wilkes-Barre will not permit us to ship heat exchangers beyond 14 feet in diameter. The photographs I am submitting for the record demonstrate how minimal the current clearances are for one of our recent shipments.

Fortunately, 15 months ago the Pennsylvania General Assembly and the Governor approved a plan to improve and modernize key rail lines across the State. The \$80 million public-private partnership project includes improvements to help accommodate the shipment of heavy equipment through the Port of Philadelphia. Beneficiaries of this project include railroads, shippers, manufacturers and thousands of people who will be working in the newly-created jobs in the distribution industry. The Port of Philadelphia also stands to benefit from the rail infrastructure upgrades by improving its reputation as a world class project cargo port. The Casey Administration continues to push for completion of this project by 1995.



We believe the Pennsylvania rail clearance project demonstrates an outstanding example of government partnering with business to remove obstacles that would prevent U.S. companies from competing in world markets. In this regard, we encourage the close examination of transportation infrastructure needs of industries across the country. We suggest that infrastructure improvement projects—in all modes of transportation—which will enhance the ability of companies to export their products should be identified and prioritized by the relevant agencies.

I will conclude by saying that Air Products is proud to play a role in the Nation's largest export industry. In 1993, despite a slump in world demand, the U.S. chemical industry managed to export \$45 billion in manufactured products. We are encouraged by signs that point to a brighter future, especially the new market opportunities that will emerge as a result of NAFTA and, hopefully, the adoption of GATT in the near future. Finally, we appreciate the time you have taken to discuss this critical area and to explore ways to upgrade the programs offered by government which encourage export activity. We would be pleased to work with you and your staff in the future as you consider programs and policies dealing with international trade issues.

Thank you. I will be happy to answer any questions you may have.







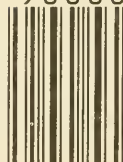
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